

Listening to Mondragon: Lessons from the Formative Period

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Mondragon is a socio-business organization that competes successfully with multinational corporations yet is organized around a democratic reordering of the relationships among people, capital, and community. It generates approximately \$17 billion in annual sales and is owned entirely by tens of thousands of workers who govern based on the principle of one-person, one-vote. It is rooted in a distinctive ethos. Layoffs are practically unheard of even during difficult economic times as workers can move among the cooperatives; education and training opportunities are ubiquitous; and investments in social welfare are impressive. At the same time, the Mondragon cooperatives are relentless in their pursuit of economic efficiency and technological innovation in order to remain competitive in global markets.

Mondragon's central achievement, so important for our times, is its demonstration that capital can be utilized as a tool for development while remaining subordinate to democratic and human values. Capital is important but it doesn't rule. This re-balancing hints at the possibility of a practical transformation of the global system into one that is socially and ecologically sustainable.

If this is so, it begs the question: How did Mondragon get started? Certainly, its system can not be replicated in some mechanical fashion. It developed in a unique historical moment. But perhaps an understanding of the factors that shaped its early development can inform other projects that are seeking to democratize and humanize the economy in other contexts. This was the central question on my mind as I participated in a week-long intensive study tour to Mondragon last month.

Father Jose Maria Arizmendiarieta (often referred to simply as Arizmendi) started a process that led to the creation of the cooperative network when he was assigned to be a parish priest in the town of Mondragon in the Basque region of Spain in 1941. By 1943 he had started a polytechnical school and in 1956 five of his students started the first cooperative in what would become the Mondragon complex. What follows is my attempt to distill factors from that formative period that may have contributed to the unparalleled future success of the cooperatives.

1. Self-Interest of Professional Leadership

The five co-founders of the first Mondragon cooperative came from working class backgrounds and held university degrees in engineering. During and immediately after their studies, they worked at the large traditional manufacturing plant in town, Union Cerrajera. The plant and town were highly stratified. There was no tradition of class mobility. With Father Arizmendi's help, they attempted to work with the company's owners to open up pathways for advancement for blue collar workers, and they themselves advanced into low level management positions.

But they soon found themselves caught between their social commitments (nurtured and focused by Arizmendi) and management's demands. There was at least one major strike during this time. Their proposals to management for reforms, including allowing workers to buy stock in the company, were rebuffed, and their individual roles in the company became untenable. With Arizmendi as their informal advisor, they reached a point where they began to explore ideas for starting a new business that would reflect cooperative ideas that they had been discussing.

Over a couple of years they worked on plans for at least two businesses that did not come to fruition before they finally succeeded at buying a defunct manufacturing operation that they used as the initial organizational vehicle for the first cooperative.

The point is this: These guys were motivated. They had professional ambitions and social values that were stifled by the existing structures. They were young and energetic. They took big risks to create a new path forward.

Basque nationalism is rightly cited as a source of solidarity that contributed to Mondragon's success. But the management group at Union Cerrajera was presumably Basque and the five founders split ways with them. Their initial self-interest appears to have been driven more by a desire to pursue their professional ambitions in a way that was consistent with their social values -- something they found impossible in the entrenched class system at Union Cerrajera -- than it was by nationalism.

2. Concentration of Professional Capacity

When the first cooperative opened, a total of 16 people worked in it, of which five were the founders who had organized the project. They were industrial engineers with some professional experience. They also had Arizmendi acting as their advisor. So there was also a ratio of about 1:2 between formally educated leaders and workers. It seems reasonable to guess that the relative concentration of people with college education was important not only to success on the technical side of the project but also in creating the new social system. This is not to discount the commitment and contributions of workers who started on this journey with less education. But I believe that a critical mass of professional leadership was needed in the very early days to make sense of a highly ambiguous situation and invent the basic organizational "operating system" upon which all the Mondragon cooperatives were later built.

3. Active and Transformational Education, formal and informal

William and Kathleen Whyte's classic book, *Making Mondragon*, describes that even after Arizmendi's first students had finished their university degrees and were working in Union Cerrajera they:

continued to meet with Arizmendi every week for discussions. Between his arrival in 1941 and the founding of the first worker cooperative in 1956, Arizmendi was extraordinarily active as a teacher and discussion leader. Jose Maria Ormaechea, one of his closest associates, remembers that "in the calculations we were making in 1956, we counted more than 2,000 circles of study that he conducted [between 1941-56]. Some for religious and humanistic orientation; others for social orientation." (p. 32)

Arizmendi seems to have been facilitating a transformational education that is perhaps comparable to Paulo Freire's vision of a pedagogy of liberation in which participants do not simply acquire skills needed to fit into an existing social order. They are instead actively engaged in making sense of their reality as they transform it. Arizmendi's own writings reflect a social philosophy that sees human beings as the protagonists of their own emancipation, people capable of changing the world not through contemplation but by a combination of learning, imagination, experimentation, and work.

Arizmendi embodied this. He was primarily a teacher but also an organizer. At key junctures, he pushed his students forward not only through classes and study circles but by his own action. Most dramatically, in 1959 when he fails to convince the five founders that they now must create their own bank to finance future cooperative development, Arizmendi forges their signatures on the incorporation documents for a new bank that he has single-handedly organized. He presents it to them as a *fait accompli* and challenges them to learn how to run it.

Arizmendi and his students soon organize a door-to-door campaign to drum up deposits in the new bank, agitating the community with the notion that the choice was to either to invest now in their own community's future or be driven by poverty to emigrate to America. "It's the passbook or the passport" they would say. (In Spanish it was a rhyme: "La libreta or la maleta"; literally "the savings account passbook or the suitcase"). This was a most active process of community education, one that challenged people to analyze their situation and to take new practical action to change it.

It gradually became clear to the founders and others that creating the bank at the point that Arizmendi did was critical to the rapid growth of the cooperatives in the 1960s and 70s. Arizmendi's teaching often led his students to action. And, in some instances, his own action led to teaching.

4. Local Capital

It was not only the bank, Caja Laboral, that mobilized the community's own capital for its transformation. At every major junction, local capital was organized to move the project of the moment forward. The polytechnical school was initially funded from donations raised directly

from the working class community. And the first cooperative, amazingly, was financed with capital raised in small investments from the community (accounts differ, some say a total of about \$100,000 was raised, others say \$300,000; but they agree that it came in the form of many small informal investments from ordinary people in the community). Mobilizing local capital in this way helped to make the democratic nature of Mondragon possible.

5. Capital Intensity

Investing in capital-intensive ventures such as manufacturing makes it possible to create higher paying jobs and can sustain a wider mix of occupations and skill levels. This probably helped to convince the community of the value of the cooperative project. It also created significant fixed corporate assets that could be adapted and redeployed as conditions changed over the years.

6. Protected Market

The Spanish economy in the 1950s and 60s was protected from foreign competition by high tariffs and grew rapidly during the post-war period. This created a favorable environment for Mondragon's early development. It also could have easily planted the seeds of its own destruction if the cooperatives had not become cognizant of the huge challenges that they would face in the 1970s and beyond when the integration of Europe and globalization would require them to become much more competitive.

I do not see this point passively -- simply a lucky break that Mondragon had going for it that will never be re-created again. Protection and subsidy take many forms large and small that assist many new industries and companies to emerge. The information technology sector, for example, grew out of huge government investment in early R&D and defense contracts that eventually made the civilian tech sector possible. The new Evergreen Cooperatives in Cleveland are using their social mission and civic relationships to access cheaper capital (via government loan guarantees, New Markets Tax Credits, etc) and they see this as giving them an initial edge over their traditionally-structured competitors. The lesson is simply that some kind of protection or subsidy is often important during the early phases of development -- as is a recognition that it can also spell one's own demise if there is not a commitment to diminish the need for these privileges as the project matures.

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We can not copy Mondragon but the future calls us to be serious students of the underlying principles and factors that contributed to its development. The power of principles is that they are transcendent and can be applied in different ways in different contexts. These are just a few thoughts. I invite others to join in studying Mondragon's experience and building relationships with its present-day members and institutions. There are seeds there that still have much more fruit to bear.