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In Cleveland, Worker Co-Ops Look to a Spanish Model

By Judith D. Schwartz

While officials, pundits and the everyday folks who have to pay bills lament unemployment rates that won't go down an wages that won't go up, some Rust Belt planners and union leaders are feeling optimistic: they're taking inspiration fror the Basque region of Spain, where a network of worker-owned cooperatives launched amid the rubble of the Spanish Civil War has grown to become the country's seventh-largest corporation, and among its most profitable.

The Mondragon Corp. (MCC), based in northern Spain, is a multilayered business group with 256 independent companies (more than 100 of which are worker-owned cooperatives) that employs more than 100,000 people. It has long been legendary among scholars and activists seeking to bolster workers' rights. (See the top 10 everything of 2009.

The Mondragon story began in 1941, when a Catholic priest, Jose Maria Arizmendiarrieta (often shortened to Arizmendi), found in the Basque town war-torn devastation where there had been a thriving manufacturing base. He opened a polytechnic school, which in 1956 spawned its first cooperative, a stove factory. Half a century later, the Mondragon enterprise encompasses firms making everything from machine tools to electronics to bicycles, along with a retail division, a university and a significant financial sector, with the large cooperative bank Caja Laboral at its core.

While many think of cooperatives as a small-scale hippie mainstay, the Mondragon Corp. is huge, hard-nosed business-wise and successful; in 2008, with Spain's economy in the doldrums, MCC's income rose 6%, to 16.8 billion euros. The Mondragon Corp. maintains its commitment to one-worker, one-vote democratic governance through a complex, carefully honed organizational structure in which the corporation serves as a kind of metacooperative for the individual companies. Through representatives and resources drawn from the larger network, it provides support for planning, research and generation funding for new businesses.

Several nonprofit and medical institutions in Cleveland have turned to the Mondragon model for a consortium of businesses that will provide needed services and bolster an impoverished community. Evergreen Cooperative Laundry, state-of-the-art commercial launderer designed to be LEED silver–certified, opened for business this fall in Cleveland's

University Circle, an area where the average annual household income is $18,500. Rather than just bringing home wages, its eight employees will gain equity through "patronage accounts," a portion of earnings put aside to both build personal assets and reinvest in the company.

Another company within the Evergreen Cooperative group, Ohio Cooperative Solar, offers weatherization services and will soon embark on solar-panel installations — the first a 100-kw system on the roof of the Cleveland Clinic. According to CEO Stephen Kiel, Ohio now has 2 solar megawatts of the 60 the state requires by 2012. "Most installations in Ohio are small," he says. "One hundred kilowatts is a pretty significant system."

Kiel, who as a business owner and management consultant has worked with nearly 200 companies of varying scale, says he has already seen advantages to employee ownership. "Since the business belongs to the workers, my job is expos[ing] them to how to run a business," he says. "In addition to the technical training, we're training in administration and managerial skills — how to obtain work orders, track profitability, read a financial statement." Unlike the typical workplace, here employees know exactly how much a company — and each individual — is making. "There's a value in dealing with an informed workplace," says Kiel. In terms of problems that can arise, including safety, production and theft concerns, "if people feel a part of it, that makes solving the problem a lot easier."

He adds that the spread between the high and low salaries is limited so that the CEO earns no more than five times the lowest-earning entry-level employee. This follows the Mondragon template, which keeps the ratio down to 1 to 4 or 5 (though in a few cases of specialized positions, it's as high as 1 to 9).

One hallmark of the Mondragon model is its use of capital. Rather than flowing into the pockets of executives and outside investors, a company's profits are distributed in a precise, democratic way; set aside as seed money for new cooperatives; distributed to regional nonprofits; or pooled into shared institutions like the university and research center. In other words, each individual cooperative gains long-term benefits from the financial assets of the whole. (How this would play out in the context of U.S. tax rules remains to be seen.) In Cleveland, the Evergreen Cooperative Development Fund, managed by ShoreBank Enterprise Cleveland, provides low-interest, long-term financing. In the future, a financial institution more aligned with Caja Laboral, which also handles consumer saving and lending, might be developed.

The "Cleveland model," as Evergreen has already been dubbed, creates "a way to stabilize jobs in an area as well as democratize ownership," says Gar Alperovitz, professor of political economy at the University of Maryland and a founding principal of the Democracy Collaborative, a nonprofit organization that has advised Evergreen. He says part of the strategy has been to address growing sectors of the economy, such as health care and energy. To have a major impact on the regional economy, manufacturing has to be brought in, says Alperovitz. "We're thinking about similar approaches with bullet trains and mass-transit vehicles, asking the question, How can some of that production be organized according to this model?"

In late October, the Mondragon Corp. and the million-plus-member United Steelworkers (USW) union announced an alliance to develop Mondragon-type manufacturing cooperatives in the U.S. and Canada. Says USW's Rob Witherell: "Initially we are looking to convert an existing manufacturing operation." As for financing new ventures, he adds, "There's a significant amount of infrastructure already in place in the U.S. to assist in the development of cooperatives, such as the National Cooperative Bank and the National Cooperative Business Association. It's possible the NCB could function in a Caja Laboral ... role for us here."

Witherell stresses that the union aims to implement the basic principles of worker ownership and democratic governance rather than precisely replicate the Mondragon model. Still, he says, success comes down to well-run companies that meet a need. "The people who formed these co-ops did not do so because of some egalitarian ideal — they did it out of the necessity to feed and provide for their families."

The Arizmendi Association of Cooperatives, the umbrella organization for a group of four (soon to be six) worker-owne bakeries in the San Francisco Bay Area, took its name as well as its business plan from Mondragon. The companies share technical and financial resources — as well as proprietary recipes — and a portion of profits goes to funding new enterprises. The notion of cooperative artisan bakeries sounds quaint, but the group is thinking beyond the breadbox. "We consider this the very beginning phase," says Melissa Hoover of Arizmendi, who is also executive director of the U.S. Federation of Worker Cooperatives. She says the companies plan to develop more businesses and are researching possibilities "along the supply chain": trucking, retail, health and wellness, as well as a funding vehicle like Caja Laboral

Arizmendi now employs 125 workers and annually generates $12 million in sales. Despite the economic downturn, the businesses remain strong and poised for growth. This in part owes to the collective decision-making model, says Hoove "Worker-owned cooperatives are an innately conservative form. We didn't overleverage ourselves."

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