

Workers' Cooperatives and Social Enterprise

A Forgotten Route to Social Equity and Democracy

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Grounded in both domestic and international illustrations of modern-day worker cooperatives and social enterprises, this article shows how the practices of these examples of social property give rise to more democratic management of the workplace and equitable outcomes for society than would ever be possible with conventionally owned enterprises. The article offers public policy proposals that would encourage the formation of cooperative enterprises in the United States, at once offering a way to anchor well-paid jobs in U.S. communities and to extend the opportunity for shared ownership and control to working people. The article concludes with a consideration of how the extension of practical democratic rights into the economic realm might enhance citizens' capacity for and confidence in dialogue and democratic decision making in the political and civic realms of life.

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Democratic Aspirations Are Not Limited to the Political Sphere

When analysts think about democracy, most consider the political realm, not the economic realm. This makes sense, at least in the United States, where the framers of the Constitution struggled to create a balanced and enduring political system that would give representation to citizens, not a system to give representation or voice to workers in the context of their workplaces (Pateman, 1970). With the benefit of hindsight, however, it has become evident that political democracy and economic democracy are inextricably linked. This article argues that denial of voice in one realm leads to its denial in the other. The inverse is also true. The opportunity for voice in either realm can whet the appetite for participation and develop in individuals an increased capacity for dialogue and democratic decision making. Today, democracy cannot be sequestered into a single realm and remain vital to people's lived experience. To be experienced as authentic, democratic rights must pervade people's experiences in their social, political, and economic relationships.

This expectation of democracy in all spheres of life reflects a significant change from the past. The American Revolution and the U.S. Constitution represented an ambitious experiment. However, although the Constitution's framers wanted to secure freedom for the new American polity on an unprecedented scale, their writings and institutional designs were informed as well by the dangers they saw in "too much" democracy, especially evident when they spoke of the value of a "temperate and respectable body of citizens," referring particularly to the Senate, in order to "safeguard against the tyranny of [the people's] own passions" (James Madison, *Federalist No. 63*).

From the founding of this country, it took the United States the better part of 200 years before democratic political rights, and in particular the right to vote, were extended to all of the nation's citizens—to the property-less along with property owners, to women along with men, and to people of color along with Caucasians. We congratulate ourselves in the United States for getting eventually to the point where all of our citizens (with the exception of felons) can enjoy the right to vote. The central concern in this essay is whether the U.S. government and society should rest on its laurels, thankful that it can claim certain democratic rights in the political arena, and stop there. Or whether it is time to press for parallel democratic rights in the economic realm.

Despite formal democracy rights, many (generally a plurality) of this country's citizens do not vote. Beyond this fact, most who do cast their votes conscientiously expect to have no real access to the corridors of power in Washington or other relevant jurisdictions. Indeed, the summary finding of a large body of research in political sociology suggests that this expectation is not unfounded, in that a corporate-based power elite—operating through lobbyists that represent industry groups, foundations, and think tanks with partisan purposes and large campaign contributions to both political parties—manages to shape and sometimes even to draft the specific language for legislation that is most important to them. This does not mean that the power elite wins on every issue; it does mean that American public policy choices often end up serving corporate interests and the interests of the very wealthy rather than the needs of the vast majority of the people (Domhoff, 1996, 2006). As a result, the American public has gone wanting on the fulfillment of many needs—for example, on universal access to health coverage; on the availability of free, quality education for all children; on basic job safety and security needs—needs that have been addressed in most other wealthy countries.

This article argues that extending voice and empowerment to the economic arena would catalyze political interest and engagement among ordinary working people. As a result, nationally taken political decisions could be expected to be decided in ways that would be more equitable and supportive of ordinary people. As Robert Dahl put it in 1985, "It seems to me scarcely open to doubt that a society with significantly greater equality in owning and controlling economic enterprises would produce profoundly greater equality than exists among Americans today" (pp. 5-6).

In her classic work on the subject, Carole Pateman (1970) explains this likely political outcome of economic democracy by referencing J. S. Mill's argument that it is through the everyday practice of democratic decision making in people's places of work that people can develop the habits, capacities, and expectations necessary for democratic deliberation and dialogue in the public arena. More recently and on the basis of empirical observation, Borkman (1999, 2006) has demonstrated how egalitarian, collectivist-democratic methods have been applied very successfully in self-help groups, and she specifically has shown how sharing lived experiences and making consensual choices on an entirely egalitarian footing provides self-help groups of many kinds with their essential method of decision making, without which they would be unable to stir personal transformation or commitment to change. Based on a large survey of self-help groups, Wuthnow (1994) has found that approximately one third (of 500,000 support groups) utilize a 12-step, peer-based egalitarian method rather than a more top-down, professional advice method and that people are happiest with this more egalitarian form of choice making.

Perhaps the last truly vigorous period of social innovation and extension of the federal government's role in supporting people in need of work came during the New Deal in the 1930s. Under Franklin Roosevelt's leadership, the national government took, importantly for the first time, responsibility for pension supports, for welfare supports, for minimum wage supports, for trade union acceptance, and even for being the employer of last resort (through the Civilian Conservation Corps and the Works Progress Administration) for many people. These social innovations were made possible (politically) by massive public support for working people and, in turn, for organized labor and for Roosevelt, a point further explored below.

Globalization Raises the Need for Democratic Rights in the Economic Sphere

Today's economic situation appears no where near as dire as that faced during the Great Depression, but today's economic climate is nevertheless placing great strains on certain groups. The economic displacement and stresses that have been set in motion in the last 25 years, first by the globalization of production and second by supply-side economic policies, were first popularized by President Reagan in 1981. Taken together, they have had the net effect of (a) diminishing the tax burden on corporations and the wealthy, (b) reducing enforcement of government regulation over environmental matters and over workplace health and safety, (c) decimating organized labor in the United States, and (d) exerting strong downward pressures on wages in general. Many books have explored the origins and effects of these supply-side policies (Bartlett & Steele, 1994, 2000; Krugman, 1994; Phillips, 2002, 2006; Wolff, 1995), but a few statistics tell the story:

- During the 1950s, for each dollar paid in federal taxes by U.S. households, corporations paid 80 cents. Today, for each dollar paid by households, corporations in the aggregate pay 20 cents (Bartlett & Steele, 2000). The nation's tax burden has shifted dramatically onto the shoulders of wage and salary earners.
- The United States has undergone eight recessions since World War II. Experience shows that the best growth period for the economy comes in the 3 years following the trough of a recession. According to the Economic Policy Institute (EPI, 2005), profits normally rise an average of nearly 14% during this time frame. However, in the period following the last recession (which ended in 2002), the average corporate profit gain came to nearly 60%. EPI researchers also have found that wages and salaries on average rise by nearly 7% during the 3-year period following a recession, but after the 2002 downturn, wages fell by 1.7%. Thus, the United States has experienced tremendous profit increases in the past several years, but stagnant wages.
- Since President Bush's inauguration in January 2001, at least 2.7 million manufacturing jobs and 900,000 service and information technology jobs have been relocated to lower wage countries. Forecasts vary, but a University of California, Berkeley, study recently estimated that over the next 8 years, some 14 million additional white-collar jobs will be outsourced (see www.afl-cio.org).
- Outsourcing is now moving from lower skilled service positions to higher skilled work. U.S. Department of Labor studies show that the new service-sector jobs being created in this country pay 25% to 50% less than the jobs being exported (Bivens, 2006).
- Kate Bronfenbrenner, a sociologist at Cornell University and one of the premier researchers of labor relations in the United States, has suggested that employers are getting more sophisticated and aggressive in their opposition to unions. Specifically, she has found that since passage of the North American Free Trade Act, 71% of American employers negotiating new contracts with their employees have threatened to outsource jobs if employees do not accept wage concessions. Free-trade policies have made this threat credible and have in this way exerted demonstrable downward pressure on wage contracts (Bronfenbrenner, 2003).

These facts suggest that although on the surface everything looks fine, the Dow Jones and S&P 500 stock market indices have reached all-time highs as this is written. Beneath the surface, however, the middle-class foundation of our society is being hollowed out, with many relying on credit, in the absence of increasing incomes, to maintain their living standards.

Plainly, working individuals would not choose to put downward pressure on their own wages, and they would not choose to outsource their own jobs. Owners, not workers, make such decisions. The growing class disparities we see in our society can be most directly addressed by altering who is involved in making economic decisions. Yet, political analysts and leaders rarely raise the possibility of offering working people some forum for voice in the workplace decisions that affect their lives. Opinion polls generally indicate that this is what people want, and the more educated they are, the more they want and expect to be offered some voice at their places of work.

One thing seems certain, so long as regular employees have little say in corporate decisions, it is unlikely that the character of those choices will change: Corporations will continue to decide to relocate to areas of the world where wages, land, taxes, and the costs of infrastructure are lower; they will continue to decide that chief executive officers deserve more pay; they will continue to suppress their wage bills wherever they can. We know that where workers have formed themselves into cooperatives, that is, into enterprises where all workers own and have an equal say in managing their firms, they have tended to make very different decisions than their capitalist counterparts. For example, the worker-owners of cooperatives have generally chosen to limit the difference between top pay and bottom pay in their enterprises to a 5:1 ratio. This is a far cry from the nearly 600:1 ratio that a recent *Wall Street Journal* survey found prevailing in corporate America (April 11, 2005). Workers in cooperatives have tended to vote to keep their co-ops local, as they have an interest in creating jobs in their own communities. In cooperatives, workers elect their own into management positions for specified terms of office. Incumbents in such positions remain accountable to the collective, and they are subject to recall. In the long run, such positions tend to be rotated, giving others a chance to learn and serve. Cooperative enterprises tend also, empirically, to insist on "sunshine rules," making the books and other relevant information accessible to all owner-workers and the subject of open discussion, thereby eliminating the corruption that is known to arise from official secrets. Thus, if the United States had a cooperative sector, it is reasonable to expect that the worker-owners of the co-ops would vote themselves higher and more equal salaries, thereby sustaining a middle class and avoiding the polarization of wealth so evident in the past two decades.

Where Did the Idea of Workers' Cooperation or Social Property Originate?

Workers' cooperatives emerged throughout Europe and the United States from the 1840s to the 1880s. The deteriorating conditions of factory work gave rise to an increasingly widespread critique of the alienation and immiseration said to be caused by capitalist relations of production and, specifically, by the loss of employee ownership and control of employees' workplaces. The employment contract itself was viewed as commodifying the workers' energy and creativity. Thus, the Marxists in Europe viewed the newly emergent worker co-ops as the most optimistic thing on the economic horizon. Karl Marx observed, "The value of these great social experiments [cooperative factories] cannot be over rated" (cited in Avineri, 1969, pp. 179-180). Marx later qualified his early enthusiasm for the cooperative form in Volume 3 of *Das Kapital*. There, he argued that cooperatives "naturally reproduce, and must reproduce, everywhere in their actual organization all the shortcomings of the prevailing system" because the "antagonism between capital and labor is overcome within them" but only

at the cost of converting the laborers into capitalists, albeit collective ones (Marx, 1909, p. 521). Marx ultimately placed his confidence in the state, rather than in worker cooperatives, to coordinate a postcapitalist economy on behalf of the workers.

Meanwhile, the Mutualists in France, like Pierre-Joseph Proudhon, and the anarcho-syndicalists like Mikhail Bakunin saw in the emergent worker cooperatives the central building block for a new society where countless local associations could federate and exchange with each other along cooperative, not competitive, lines. In addition, they hoped they would provide credit to each other as well—just as the Mondragon and the Self Employed Women's Association (SEWA) systems later did.

These two important lines of political thought parted company at the First International, held at the Hague in 1872. There, Karl Marx and Mikhail Bakunin competed for leadership of the Communist Party. Both shared essentially the same critique of private property, but on the question of how to move societies to non-alienated work, to a classless condition wherein those who work also manage their labor process and share equally in its fruits, they held diametrically opposed positions. Marx believed that to avoid a retake of power on the part of the capitalist class, the working class would need to consolidate its power in the hands of a strong state apparatus that would coordinate the economy, at least provisionally, until it “withered away.” Bakunin countered that central state control of the economy would prove to be “the most vile and terrible lie of the 20th century.” He urged, instead, a completely decentralized system in which workers would co-own and self-manage their own workplaces, with federative activity among themselves when needed. Similarly, citizens would manage their communities directly. Workplace decisions and community decisions would be coordinated at the local level. At the congress, Marx charged that Bakunin was a “lying Russian agent,” a total fabrication. Marx won the contest and immediately expelled Bakunin and his followers from the congress. This watershed event gave rise to a deep split between those who supported the central management model of socialism and those who supported the decentralized popular control model (see Rothschild, 2003, for more detail on this history).

The outcome of the Marx/Bakunin conflict at the congress of the First International ensured the ascendancy of the idea that socialism meant strong central state authority and eclipsed from subsequent history the decentralized worker cooperative model that Bakunin had advanced. After 1991, barely anyone defends the central state model as the best coordinator of economic activity, and despite tremendous contemporary growth of grassroots activities and claims for self-management, few of these latter-day reformers remember Bakunin or realize their connection to his thought.

The last three decades have witnessed the development of thousands of experiments in egalitarian cooperation. Some call themselves *co-ops*, a term borrowed from the 19th century and probably the most precise of the terms available; others call themselves *collectives* or *social enterprises* or *nongovernment organizations*. They are united in their commitment to running themselves along collectivist-democratic lines, and they generally seek to make decisions by direct dialogue and consensus.

Darcy Leach, in a recent study, located thousands of these sorts of organizations in today's Germany, some of which she reports on in this issue. Labor parties (or social democratic parties) in Italy, France, Sweden, Australia, and Quebec have found ways to support the development of worker cooperatives (or the "social economy," as it is sometimes called), and worker co-ops and social enterprises have proliferated in those countries and provinces. Labor Party support was also crucial historically to the development of kibbutzim production in Israel (Orkin, Gordon, & Dekel, 1999). Similarly, a study of five industrial cooperatives in Kolkata, India, suggests that state support for their efforts was a prerequisite for their success (Bhowmik & Sarker, 2002). The United States, however, has no labor or social democratic party. Nevertheless, the co-op form did receive a boost in the U.S. political environment of the 1920s and 1930s, as is discussed later in this article.

International Experiences With Workers' Self-Management

A few countries and regions have extended democracy to their workplaces. For example, the former Yugoslavia, under President Tito, developed a system of worker self-management, and most researchers agree that the nation's citizens prospered under it. Germany, after World War II, passed a law giving workers' representation on corporate boards of directors. This practice of *codetermination*, as it is called, is used in more than 700 companies in today's Germany and is credited with the high level of affluence and international competitiveness achieved in that economy (for a summary, see Melman, 2001, pp. 371-376).

In the town of Mondragon, in the Basque region of Spain, a priest and five of his students began to study what they might do to bring economic opportunity to the distressed town. Only when they discovered that neither the state nor any capitalists wanted to invest in their area did they turn to a cooperative model of development. They established their first co-op in 1956. The Mondragon system has grown into a cooperative network that is a leading manufacturer of stoves, refrigerators, and other appliances; is the largest tool-and-die maker in Spain; and provides dozens of other kinds of goods and services, including engineering consultation on big projects and software development. Today, the Mondragon system of cooperatives provides a decent livelihood and democratic workplace decision making to some 150,000 worker-owner-members linked together in a network of roughly 150 cooperative enterprises. In 1997, it generated \$5 billion in annual sales and had \$7.5 billion under management (Freundlich, 1998). Most impressively, it operated a cooperative community bank that enabled the Mondragon to keep the revenues it earned inside the community. Those funds have seeded new cooperatives, funded a pension and health care system, and financed a cooperative school system where children can learn the skills of democracy while also learning a trade (Whyte & Whyte, 1988). In more than 150 co-op

enterprises, the senior positions continue to be held by election, and every enterprise contributes a specified part of its surplus to the cost of health, education, and research that serve the common good and that ensure the future of the cooperative system. In their economic analysis, Thomas and Logan (1982) found that the Mondragon co-ops realize a higher growth in sales volume, in exports, in employment creation, and even in profit rates than do comparable private-sector businesses.

Another big success story in the less-developed world is the story of SEWA. Started in 1972 in Gujarath, India, SEWA has now organized nearly 700,000 women into local cooperatives, giving them the means to move from destitution to self-sustaining lives. SEWA offers poor women training in a specific skill and marketing and organizational resources and seed capital through its own bank. The cooperatives are run democratically, and SEWA also provides advice and training on how to speak at local democratic meetings. Leslie Calman (1992) has documented SEWA's success, both in bringing women out of poverty and in raising their confidence in many domains of life.

Even an industry as capital intensive as coal mining has a worker-owned cooperative. It is in Wales. In one of the last nationally owned underground mines in the United Kingdom, the workers organized and bought the mine from the British Coal Board, with each worker contributing \$13,000 for a share. In this way, the mine became co-owned and comanaged by the workers, with no outside shareholding allowed; that is, it became a true workers' cooperative of about 250 worker-owners. Studying the informal and formal governance of the coal mine under both government and cooperative governance, Hoffmann (2001, 2006) found that the flatter structure, equal-share ownership, and newly embraced egalitarian beliefs, all brought about by the change to cooperative ownership, combined to add to the workers' loyalty to the enterprise and confidence that procedural justice norms would prevail. Workers' newborn confidence in the fairness or justice of the organization led them to stay with the firm; prevented many possible disputes from arising; and, when they did arise, helped to ensure that they could be resolved informally.

The Cooperative Experience in the United States

With the cooperative model visible in other parts of the world, why is there no full-blown cooperative economy in the United States? In my view, five systemic reasons help explain this outcome:

1. American-style capitalism fosters invidious and uninhibited comparisons between individuals. Wealth, for the most part, is the yardstick of comparison, and there appears to be no line at which riches bring public embarrassment, a line that might serve, hypothetically, as a disincentive to the continued accumulation of wealth. On the other side of the coin, there is also no incentive in our system for an entrepreneur

with a marketable idea and capital in hand or access to capital to share the elements of production with a group of workers. The only capitalists who have willingly given away their control and ownership of an enterprise have done so because their religious or political ideals overrode system incentives to behave otherwise.

2. As things stand now, public-sector agencies in the United States are also growing increasingly thick, with agency heads and deputy directors appointed by the executive and possessing partisan alliances as a result. This provides little incentive in the public sector for top agency officials to share decision-making authority with the masses of civil servants below them or to learn from veteran civil servants (Light, 1995).
3. The acquisitive, hierarchal culture of capitalism perpetuates itself in so many ways until eventually, as Weber foresaw, most people just assume it is the "right" and "legitimate" way to do things: that those at the top of tall hierarchies have got there as a result of a meritocracy. Incumbency in office conveys in itself legitimacy of decisions. This is the "iron cage" of which Weber spoke so presciently: It is the willingness of most to accept the decisions and the premises of those at the top of bureaucracies. Weber saw no way out of this cage, and he argued that the more modern the economy, the more this way of thinking would permeate the society.
4. The United States was probably more swayed by Frederick Taylor's principles of "scientific management" than any other nation was, including his principle of close supervision. The result was that by the 1970s and 1980s, the United States had developed more elongated bureaucracies (with each manager supervising fewer workers) than was the norm in either Japanese or Northern European business firms. With the steepest bureaucracies in place, the United States would have the longest way to go to get to egalitarian organizations.
5. Finally, whereas social democratic or labor parties in several other Western countries have supported the development of workers' cooperatives or social enterprises, at least to an extent, the United States has no social democratic party to offer such support, and the specifics of our electoral college system militate against the success of third-party bids for power.

The only way that people can learn to want anything other than hierarchical relations is by being exposed to a series of experiences and observations that lead them to see that cooperative relations can exist and can be workable and rewarding. So, it is a circle. How can people gain experience in democratic communication and egalitarian relations when there are relatively few examples in this country and virtually no incentives for those with capital resources to share productive resources and decision making?

Despite these five factors, some cooperative enterprises have nevertheless been born on U.S. soil. The nation's first industrial-based worker cooperatives developed in the 1840s. They were rooted in a critique of industrialization and private property that developed in Europe in the mid-19th century. Craftsmen were being economically displaced during this period, and jobs in the early factories offered only degraded conditions of work. In an effort to regain control over the product and process of their labor, workers' cooperatives began spontaneously to spring up. The

United States has since experienced five documented waves of cooperative formation (Aldrich & Stern, 1978). These have reflected workers' grassroots efforts to create and manage their own work.

In general, cooperatives have received little official government attention over the years, with one notable exception. The federal government first noticed and began to support the development of worker cooperatives during Theodore Roosevelt's "Square Deal" initiative. Roosevelt was concerned about farmers failing because of the pricing power of the "trusts" they faced. He set up a Commission on Country Living that recommended that the federal government support farmer co-ops. The issue remained salient, and the Cooperative Marketing Act was passed and signed into law in 1926 under Calvin Coolidge. This statute supported marketing co-ops that would serve farmers. The act directed the U.S. Department of Agriculture (USDA) to assist with the formation of farmers' co-ops and mandated that a bureau be created within the USDA (the Rural Business Cooperative Service) to assist and conduct research on them.

The Cooperative Service still pursues that mission today. Today, some 40% of rural America gets its electricity from an electric co-op or is a member or consumer of a farmer, food, or credit co-op. Rural Americans know what co-ops are, and they tend to have very positive views of them. The USDA's slogan is "Helping farmers to help themselves." The USDA estimates that farm co-ops pump \$200 billion into the nation's economy each year. Senator Herb Kohl (D-Wis.), speaking recently at a conference on the farm economy, argued that the federal government should do much more to build cooperatives across jurisdictions and not just in rural areas (www.rurdev.usda.gov/rbs/pub/ju106/summit.htm).

Historically, cooperatives have tended to develop spontaneously during periods of severe economic distress (Shirom, 1972). For example, during the Depression, thousands of cooperatives took form in the United States, involving some 1.3 million people and using their own script for trade. One large example in California, the Unemployed Cooperative Relief Organization, involved about 150,000 people. Leaders of these entities pleaded with Franklin Roosevelt to include cooperatives in his Works Progress Administration (WPA) plan, but he refused, preferring to offer government paid jobs for public projects. When the WPA ended, its workers had constructed a wide variety of public works, but it did not create a network of worker cooperatives that could continue and that could have presented a successful alternative model of "reciprocal economy" (Rowe, 2006).

Then, in 1934, Upton Sinclair won the Democratic Party nomination to run for governor of California. The centerpiece of Sinclair's campaign was that the state should support the development of worker cooperatives as an alternative to capitalist ownership. Sinclair called it his "EPIC" program, for "End Poverty in California." The idea was to turn idle California farmland and factories into a network of worker cooperatives. Sinclair visited FDR and thought he had his support, but his Republican opponent raised \$10 million for the race (seen as a huge campaign war chest at the

time), and Roosevelt withheld his endorsement. Sinclair still received nearly 40% of the vote in a three-way race. Today, we can only imagine the force of the model of cooperation that might have emerged in California had Sinclair been elected.

The upshot of this historical circumstance is that the United States did not develop a cooperative urban-based economy in the 1930s that could serve as a visible model of how working people might control their economic lives. Nevertheless, the nation does possess thousands of homegrown cooperatives, community organizations, and social enterprises. These are scattered across America, but they are unified by their efforts to run themselves in an authentically democratic fashion, and although not identical to each other in form, they too can be instructive.

For example, numerous cooperatives have developed in the home health care field. At one such enterprise in the Bronx, former welfare recipients formed a cooperative home health care agency in 1985. Today, this co-op has almost 800 worker-owners. They pay themselves 20% above the industry standard in New York, experience very little turnover, and set the Metro area's industry standard for quality care. The USDA is looking into the feasibility of starting six new rural-based home health care co-ops like this one, based on this organization's success (Lappe, 2006).

At a social enterprise called Mamas Hot Tamales in Los Angeles not only serves award-winning tamales but also teaches scores of Mexican immigrants how to make delicious food and how to launch their own restaurants and catering enterprises. Like SEWA in India, Mamas Hot Tamales helps immigrants move from the informal to the formal economy. Mamas has gone beyond being a simple restaurant and has generated livelihoods for many (Pierce, in press).

Comparison of qualitative dimensions of work in cooperatively owned enterprises versus public enterprises versus conventionally owned enterprises would offer insight, but there are few research studies of this kind because there are only a few industries in the United States where examples of all three types of ownership can be found. One industry that contains instances of cooperative ownership, municipal ownership, and private ownership is garbage collection. In the late 1970s, researchers at Harvard University compared these and found that the cooperative garbage collection firms not only offered much higher incomes to their worker-owners but also ensured a diversity of tasks, level of self-governance, and pride in work that the other two sectors could not begin to reach (Perry, 1978). Hoffman (2006) provides another glimpse into how ownership and governance structures per se can affect workers. Conducting research into the experience of home health care workers, some of whom worked in a cooperative, others in a nonprofit agency, and still others in a privately owned firm, she found similarly positive results for the cooperators.

Although all of the co-ops cited make money, they all express social purposes that they place on an even par or ahead of their money-making goals. The time honored first principle of the co-ops is self-management: the idea that each worker will be offered an equal share of ownership and say in decision making, with no outside investor (i.e., nonworker) allowed to own shares in the enterprise. The second principle

these partnerships share, grounded in their humble beginnings, is that they will offer the consumer fair weights and trading and will be concerned for the welfare of the communities in which they operate.

Can the Government Seed Economic Democracy in the United States?

Millions of people might benefit by having access to cooperative or social enterprises in which they could co-own and manage their work process. The globalization of production is rendering many types of work unstable in U.S. communities. Cooperative forms of organization could anchor work in American communities and provide an attractive alternative, but it is hard to envision how this model might spread without the active support of the state.

As discussed above, national support for workers' cooperatives was directed to the rural areas during the Depression, and the USDA did succeed in creating a vital cooperative sector in rural America that has persisted and grown over the years. The cooperative model, however, has received practically no public consideration outside of rural areas. Why not offer government support to the many urban and suburban workers whose wages and job security have been threatened by globalization? It could be offered as something we owe our working people if the nation is going to pursue free-trade agreements.

Specifically, federal government support for the formation of co-ops in the form, perhaps, of government-backed loans and/or technical assistance could be offered as an addition to the Trade Adjustment Act (TAA), whose extension is presently before Congress. Because the TAA already provides income support and retraining money for working people who have been displaced by exported jobs, Congress and the president have implicitly accepted (on a bipartisan basis) some responsibility for the job losses that come as a result of free trade.

The federal government could effectively support the development of viable worker cooperatives in the nation by (a) offering direct financial and technical assistance to aid their formation, especially for groups of employees who could organize to request such support in the face of plant or office relocations to other parts of the world, and (b) offering some type of contract preference to cooperative enterprises that bid on infrastructure or other public works so in need of attention at this time. This type of concrete government support would likely attract many workers who have lost their jobs, because the income supports under TAA are limited and the retraining currently offered is for uncertain, and often times, nonexistent work (Uchitelle, 2006). It could be called the "own your own job" option.

The most germane initiative of the past several decades that encourages the creation of something like worker cooperatives was the federal legislation creating Employee Stock Ownership Plans (ESOPs). In the mid-1970s and early 1980s,

several new statutes provided tax advantages for ESOP financing and were passed with bipartisan support. In addition, several states, including Ohio, Maine, and Massachusetts, have taken a leadership role in advancing and assisting employee ownership. An estimated 11,400 ESOPs have been created to date (Logue & Yates, 2001). The ESOP structure is a uniquely American invention, and its political history has been detailed elsewhere (Blasi, 1988; Rothschild-Whitt, 1984). Most ESOPs have come about as conversions of ownership, when the owner of a closely held company retires (Logue & Yates, 2001). The National Center for Employee Ownership conducts research and acts as a clearinghouse for research concerning ESOPs (www.nceo.org/library/research.html). Several studies have found that ESOPs pay higher wages and retirement benefits to their worker-owners than do comparable privately owned firms, just as the Mondragon co-ops tend to pay more and to outperform their conventionally owned counterparts in Spain (Freundlich, 1998).

ESOPs have also sometimes been able to save employment that would otherwise have been lost in U.S. communities, because companies, seeking to lower their wage costs and optimize their earnings, do sometimes shut down profitable plants (Bluestone & Harrison, 1988). Workers, for example, may be more than willing to keep their jobs, become owners, and make perhaps an 8% return on equity, whereas prior corporate ownership and shareholders might relocate production because they viewed the 8% return as too low. More modest expectations concerning profits have enabled some ESOPs to be viable when privately owned companies were not interested. In addition, there is evidence that local management brings a wiser use of resources than remote management can obtain (Bluestone & Harrison, 1988) and that the shift to employee ownership enhances firm productivity as a result (Logue, 2001). Studies of matched samples of ESOP and conventionally owned firms of similar size and in the same industries show that the more equity the workers own, the higher their earnings, sales generated, and net new jobs created per million invested, which suggest that the productivity and motivational advantages of cooperative ownership are not inconsiderable (see www.nceo.org for research by Tannenbaum and Conte and by Rosen).

Despite these sanguine findings, research also suggests that many ESOPs have failed to bring egalitarian earnings or democratic management to the involved workers. Indeed, in most cases, new ESOP worker-owners do not gain representation on boards of directors, are not empowered to elect their managers or to rotate into management positions, and are not allowed to speak and to vote on important workplace decisions on an equal basis (Blasi, 1988; Melman, 2001; Rothschild-Whitt, 1985). This is largely because the enabling ESOP legislation at the national level focused on the transfer of ownership and was silent on matters pertaining to the potential for democratic workplace management. As a result, the banks that make loans to create ESOPs often appoint their own people to serve as trustees and to top management positions (Rothschild-Whitt, 1984). Only a fraction of current ESOPs are managed by their worker-owners, despite evidence that democratic control, tied to ownership,

is more productive than ownership alone and is far more desirable and meaningful to workers (Gates, 1998; Logue & Yates, 2001). Although participatory practices may be increasing to some extent over time, as Logue and Yates (2001) have shown for Ohio ESOPs, the silence in the original legislation concerning management of such firms was a significant oversight. Unless the ESOP form can be redefined legally to include provision for democratic worker control of the firm to go along with the equity stakes already provided, the ESOP form is unlikely to offer the direct experience with democratic self-management that is offered in the true cooperatives.

Thus, the co-ops urged here would be defined as being wholly owned and managed by their workers and thus an important step beyond the present legal definition of ESOPs. As John Stuart Mill grasped in the 1860s when he saw the early worker cooperatives emerging around him and wrote his *Principles of Political Economy* (1909), cooperatives offer a concrete way that workers can develop capacities and habits of doing democracy in the workplace, and those capacities and habits are both necessary for, and transferable to, political engagement and democratic choice making. A recent study of a worker cooperative that manufactures recreational gear reinforces Mill's observation with its finding that the worker-owners became better citizens through daily democratic practices at their workplaces as well as better entrepreneurs and managers of their businesses (Schoening, 2006). The argument herein is that the U.S. federal government and the states could do nothing more frontally to address the growing wealth gap, the downward pressure on wages, and the loss of so many "good" jobs in American communities than to support the formation of cooperative enterprises, an option vibrant in other parts of the world and in the United States of the 1930s, but rarely if ever mentioned by U.S. political parties or leaders on the current scene.

It goes without saying that each co-op business plan would need to be feasible to obtain public support. It is beyond the scope of this article to address the many practical issues involved in business viability. Instead, my purpose is to indicate the opportunities that have been lost by the relative neglect of the cooperative (or social) enterprise route to social and economic development.

Conclusion

Conditions have changed since the U.S. Constitution was framed. A level of democracy that seemed bold in the 1790s may appear limited by today's standards. The Constitution was conceived and written at a time when few had the opportunity for formal education. Compulsory education for children and the advent of public schools did not occur until some 70 years later. Obviously, much higher educational levels are required and obtained today, and higher education tends to be associated with individuals' expectations of more say in their economic and political lives. This expanding expectation of democracy is unlikely to revert, as the nation's economy

requires ever more sophisticated cognitive skills. In addition, new information technologies are expanding by many multiples the volume, speed, and means of communication, rendering possible much more direct, interactive, and democratic forms of communication than previously could have been conceived. Technology too will not turn backward. Finally, and contrary to what some observers predicted several decades ago, more people are involved in the U.S. workforce today and they work longer, not shorter, hours. This fact too moves to the fore the workplace as a primary arena in which people desire more say.

Why has the cooperative or social enterprise alternative, building workplaces where workers could co-own and comanage their production in a democratic fashion, not been more widely adopted in the United States? This article has suggested that the reasons for this outcome are both systemic and historically specific. They are systemic, as discussed earlier, in as much as the capitalist system provides no incentives to entrepreneurs or investors to share ownership or control with those who labor in their organizations. The reasons are historically specific in that when Marx won the battle at the First International in 1872, his ideas captured as well the history of the next century. Thus, the 20th century saw the development of a central state control model in much of the world, opposed by a capitalist market-driven model in other parts. The latter advanced with claims of being the only democratic alternative, a premise challenged in a thoroughgoing analysis by economist Robin Hahnel in this issue. However, this polarization of the world's economies virtually obscured from the discussion a meaningful "third way." Ironically, it is this third way that is seen as intriguing today, in the United States and all over the world.

The cooperative or social enterprise option, emergent in an earlier stage of industrialization, is new again but reinvented in a somewhat different way. What these newer third-way organizations have in common is (a) their commitment to a socially beneficial purpose (in addition to the need of their workers or members to earn a livelihood); (b) their commitment to a culture, a set of values, and a process that is profoundly democratic and that seeks to cultivate a supermajoritarian dialogue and agreement (or consensus) before proceeding; (c) their commitment to more egalitarian and participatory structures of organization; and (d) their commitment to the central claim that a decision is not legitimate unless everyone who would be affected by it has been invited to take part in making it. This is what unifies and defines their special character (Hahnel, 2005; Iannello, 1992; Leach, 2006; Mansbridge, 1980; Rothschild & Whitt, 1986; Rothschild-Whitt, 1979).

As these new social movement organizations, nongovernmental organizations, and socially owned enterprises have grown over the past 20 to 30 years, and as their members witnessed the actual use of power by the central state, they recoiled, insisting that their local cooperatives, collectives, and social movement organizations have nothing to do with the state. However, the more the grassroots organizations resisted state influence and assistance, the less reach their experiments in egalitarian cooperation could have.

During the Great Depression, millions became involved in their own cooperative and sometimes informal economy, but when they asked for support from the federal government, national aid was limited to the rural sector, leaving no visible legacy in the cities. Paradoxically, as the United States prospered and modernized in the latter half of the 20th century and the state became, some would say, more captured by corporate interests, the advocates of worker and community control saw still more reason to keep their distance.

Many who follow the social movements literature might wonder whether government support for cooperatives would corrupt that sector, turning these organizations into the sorts of hierarchical entities they seek to avoid. It is reasonable to ask whether co-ops created with government support would be able to sustain their autonomy. Indeed, Christensen and Ebrahim (2006) have shown how the accountability mechanisms so often used by the state (and by private donors) can end up being onerous to nonprofit organizations and nongovernment organizations. In addition, isomorphic pressures can lead alternative organizations to mimic the institutional forms they see around them, until in the end, they no longer present an alternative (DiMaggio & Powell, 1983).

On the other side of this equation, however, one must weigh the much greater reach the cooperative alternative could develop, if it gained government support. Beeman (2007) reports that in Ottawa provincial support for the social enterprises has come without strings attached. Reinelt (1994) and Matthews (1994) have demonstrated, in their studies of battered women shelters and rape crisis centers, respectively, how these alternative institutions changed as a result of accepting large amounts of government money for their services. Nonetheless, accepting such money allowed these organizations to extend their reach greatly, serving many more women in the process. Which of these results should be considered more significant or worthy is not clear. More research is needed on this important concern.

So long as democracy, in most people's minds, consists in going periodically to a voting booth, we have to admit that this leaves us with very little flesh on the skeleton of democracy. Voting alone does little to motivate interest in participating or to suggest that one might make a difference. Having the opportunity to go to that voting booth is, of course, better than not, but the democratic revolution that began more than 200 years ago in the political arena needs to catch up to ordinary people's desire and expanding expectation that they will have some say, some voice, in the everyday workplace decisions that affect their lives. In the view of the members of the alternative organizations and new social movements that have been emerging over the past three decades, in an authentically democratic society, a decision would not be seen as legitimate unless all persons who would be affected by that decision have been invited to take part in making it. We are still a long way from that society, but modern social movement organizations, social enterprises, nonprofit organizations, and cooperatives that prefigure this new standard of democracy are growing. So too is the number of American employees, especially those with more education, who express a desire for more say in the workplace.

None of us can know what the key issues will be in 50 years, but so long as ordinary people can be expected to understand better than the power elite their own needs and therefore make public decisions that are more likely to advance their collective well-being, government and social institutions of all sorts should be seeking to expand forums for democratic choice. Will a proposed institutional innovation or process change enhance the forums in which regular people can make determinations about their lives? This should be the signpost by which our society gauges its political progress. One of the most serious threats to democracy is the notion that it has already been achieved. If democracy cannot be extended into the economic arena, it is difficult to conceive how it can be made more substantive in any other. Put positively, should our society choose any policy means of encouraging the development of more widely shared ownership and control of economic enterprises, the experience with cooperative and other self-help enterprises in this and in other parts of the world suggests that we can look forward to higher public confidence and engagement in “doing democracy” and in seeking the common ground in our civic and political spheres of life.

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