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Protest march, Mondragon, October 18, 2013. The Basque language banner reads "In Defense of Our Jobs."

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# The Mondragon Cooperatives and Global Capitalism: A Critical Analysis

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## Keywords

globalization, labor, working class, cooperatives, Mondragon

There is currently a great deal of optimism surrounding worker-owned cooperatives. New initiatives abound in the United States and in the austerity-punished countries of the Eurozone, particularly in the aftermath of the financial crisis. Inspired by the Occupy and anti-austerity movements, advocates argue that co-ops secure employment, give workers control, and anchor community-based economies. Many—academics and social justice activists alike—maintain that co-ops promise a more democratic and just form of capitalism and even sow the seeds of socialism within capitalist society. Even unions have started to pay attention. For example, the United Steel Workers (USW) signed a memorandum with Mondragon Corporation in 2009 intended to explore unionized co-operatives.

Amid the activity and excitement, however, there was disappointing news. In 2013, Fagor Electrodomésticos, the home appliance division and flagship brand of Mondragon Corporation, declared bankruptcy, and 5,600 jobs were lost. Since co-op supporters worldwide count Mondragon as the leading model for worker-owned co-ops, this turn of events registered far beyond the shuttered factories of Fagor.

***Mondragon inspires devotion from people worldwide who seek existing alternatives to capitalism.***

Headquartered in the industrialized Spanish Basque city for which it is named, Mondragon

is regularly hailed as the most successful worker-owned enterprise in the world. The first factory, predecessor of Fagor, opened in the 1950s to produce gas stoves for a domestic market stimulated by the development policies of the Spanish state. Today, Mondragon employs seventy-four thousand people in 257 firms, including subsidiaries and joint ventures in sixty counties. Industrial co-ops manufacture everything from machine tools and commercial kitchen equipment to automotive parts for a global market. The mega-supermarket chain Eroski has more than two thousand outlets throughout Europe, including ninety super-centers. The Caja Laboral bank and social security co-op provide financial services to members and affiliated businesses, and Mondragon University offers undergraduate and postgraduate degrees in engineering, management, education, and culinary arts.

Mondragon inspires devotion from people worldwide who seek existing alternatives to capitalism. Each co-op is fully owned by members (workers, and managers alike) who invest as shareholders; there are no outside stockholders. The co-ops are not unionized; instead, workers are represented by social councils, and firm-wide decisions are confirmed by a vote by the general assembly. Each co-op sends representatives to the Cooperative Congress, where system-wide business decisions are made.

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Mondragon limits managerial salaries to nine times that of the lowest paid member; this is an exceptionally equitable differential compared with the 2014 average CEO-to-worker pay ratio of 127:1 in Spain or 331:1 in the United States (according to the AFL-CIO). Reinvestment is substantial, and surplus (not designated as profit) is distributed to members' personal capital accounts in the Caja Laboral, where they are held as private savings but made available for investment within the co-op group. Mondragon guarantees employment to co-op members, and during downturns, members preserve jobs by cutting salaries and increasing their investments, or by transferring workers between co-ops. To advocates, these practices manifest the core co-operative principle that holds labor sovereign over capital.

***International expansion . . . created a three-tiered labor force at Mondragon—members in the Basque country, temporary workers throughout the Basque region and Spain, and wage laborers in foreign subsidiaries.***

Fagor's failure, however, disrupts this familiar account of Mondragon's achievements, not only for the bankruptcy, which is singular in the system's sixty-year history, but also because it reveals contradictions regarding rank-and-file workers, working conditions, and labor that are often overlooked by co-op supporters. International expansion beginning in the 1990s created a three-tiered labor force at Mondragon—*members* in the Basque country, *temporary workers* throughout the Basque region and Spain, and *wage laborers* in foreign subsidiaries. The bankruptcy had dramatically unequal consequences for these different categories of workers. Even before they created this global hierarchy, the co-ops divided the local labor force in the city of Mondragón itself, where co-op workers often stood apart from the struggles that shaped the social and political life of the city's working class. To assess the co-op movement's potential, it is useful to examine problems of work and class in Mondragón and their implications for how we think about

co-operatives in this conjunctural moment, when capital provides neither secure jobs nor a livable wage for countless working people; anti-capitalist activists establish grassroots co-ops in many quarters; and cities, non-profits, banks, and labor unions stimulate worker-owned businesses, while co-ops compete on a global market.

### **The Impact of Fagor's Bankruptcy**

Fagor Electrodomésticos had struggled since 2008, when the financial crisis shocked the Spanish housing market and the home appliance sector with it. Fagor was dependent on housing starts in Spain, and it relied on subsidies from other Mondragon co-ops to stay afloat. But in the fall of 2013, with €1.1 billion in debt, continued losses, and burdensome international investments—Fagor had eighteen factories in nine countries and eleven thousand employees worldwide before the crisis—the Mondragon Central Council cut off funding.

This dealt a blow to the city of Mondragón, whose population of twenty-five thousand depended in good measure on Fagor factories and was already struggling with the repercussions of capitalist crisis and austerity, as well as with pay cuts and the loss of temporary contracts in the co-ops. Co-op members took to the streets to defend their jobs. They held protest marches, and at one Fagor site, workers locked themselves inside in an effort to prevent its closure. The eruption of protest was unusual, as Mondragon regulations prohibit strikes over in-house labor conflicts. Workers in non-co-op factories came out to show support. Their union affiliations habituated them to solidarity, and they understood that despite employment security for members, the loss of temporary contracts and the net reduction of co-op jobs were setbacks for the local working class. The announcement that some Fagor plants were bought by corporate competitors (BSH Home Appliances and Cata & Can group) and would reopen with dramatically reduced workforces offered little solace.<sup>1</sup>

The 5,600 Fagor workers (who remained after rounds of downsizing) fell into three categories: approximately 1,900 members in Fagor

co-ops in Mondragón and nearby Basque towns; two hundred temporary workers in the Basque country on short-term contracts, and 3,500 wage laborers in international subsidiaries.<sup>2</sup> Of the members, the majority transferred to other co-ops. Others took retirement options with LagunAro, Mondragon's pension management institution; went on unemployment until they qualified for early retirement (availing themselves of a new legal provision that allowed them to collect unemployment payments even though, as co-op members, they were self-employed); or opted for buyout or retraining. The jobs and incomes of temporary workers and subsidiary employees, in contrast, were not protected. The fate of all of these people, as well as an account of the working conditions in other Mondragon subsidiaries, are as much a part of the Mondragon story as are the frequently recited co-operative principles and democratic structures.

### **Mondragon's Global Labor Force**

Mondragon went global in 1990, in response to increased international competition that followed Spain's entry into the European Union. Now, in a bid to remain competitive and protect jobs in the Basque country, Mondragon multinational co-ops control 100 foreign subsidiaries and joint ventures, employing approximately twelve thousand workers, mostly in developing and post-socialist countries, where wages are low or markets growing.<sup>3</sup> These firms are not worker-owned and their employees do not have the rights or privileges of co-op members. Even in the Basque country and in Spain, co-ops depend on significant numbers of temporary workers on short-term contracts. Only about one-half of Mondragon's businesses are cooperatives and one-third of its employees are members.<sup>4</sup> A report on the working lives of employees of co-op subsidiaries is a critical, but too-often-sidelined, dimension of the Mondragon model.

Economist Anjel Errasti studied eleven Mondragon subsidiaries in the Kunshan Industrial Park in China, near Shanghai. (Mondragon has eight other plants in China.) Errasti compared co-op-owned factories with conventional multinationals in Kunshan. Most produce auto parts and are small- to medium-sized, labor-intensive firms

with fifteen to 250 employees. The majority of assembly workers are women, and machine operators are men. Pay is equally low in both the Mondragon-owned and the conventional subsidiaries; Kunshan workers earn €1.5 per hour compared with €21 in the Basque country. So, too, are the hours similarly long and conditions harsh. To earn overtime pay, workers put in eleven hours, six days a week, and regularly forego vacations and holidays. Like their competitors, Mondragon co-ops invest in China to manufacture labor-intensive goods cheaply and to be in close proximity to their clients in emerging markets.<sup>5</sup> A 2008 strike over low pay and repression of union activists at Fagor Mastercook in Wroclaw, Poland suggest that these conditions are not unique to China. Wages in Mastercook were barely higher than the state-mandated minimum.<sup>6</sup>

Co-op members voted to pursue an international strategy to open these firms, and, thus, to employ low-wage laborers. Hence, we are confronted with a complicated permutation of a familiar state of affairs whereby the privilege of one strata of workers depends upon the exploitation of another. The history of capital accumulation, as we know well, is the history of the making of difference and inequality (across space, racial, gender, skill, etc.). What should we make of division and inequality along the lines of employment status and space/nation when these strategies are deployed by worker-owned cooperatives?

***Job security, decent pay, and workplace democracy in the Basque country, therefore, rest upon poorly paid and insecure wage labor elsewhere.***

Mondragón's employment growth to 2007 well outpaced that of Spain overall, and domestic employment was twice as great in co-ops with overseas plants than in those without.<sup>7</sup> In the aftermath of the financial crisis, when unemployment in Spain rose sharply, the city of Mondragón and its environs fared better, in good measure because of the co-ops. Job security, decent pay, and workplace democracy in the Basque country, therefore, rest upon poorly paid and insecure wage labor elsewhere.

The system-wide decision-making body, the Cooperative Congress, passed a policy of “social expansion” in 2003 to extend participation and democracy beyond the Basque country. The policy emphasizes education to develop the ethos and “culture” of self-management in other environments. To this end, workers from one co-op venture in Mexico traveled to Mondragon headquarters to learn cooperative principles. There is continued talk of converting subsidiaries to co-ops, although distinct national legal frameworks make this difficult; to date, there has been one such conversion in Galicia, Spain. A plan is underway to extend membership to employees in Eroski’s retail stores, where worker-ownership is particularly low.<sup>8</sup>

Moreover, Mondragon devised a new category of temporary member, which does not grant permanent job security but extends rights to vote and serve on elected bodies, participate in the general assembly, and receive a share of surplus (reduced relative to full membership). With a limit of five years, this status preserves labor flexibility, but extends some privileges of membership.<sup>9</sup> Mondragon also has a new non-governmental organization (NGO)—the Mundukide Foundation—to encourage solidarity-economy efforts farther afield, and it is co-signer with USW of the pioneering memorandum to foster unionized co-ops in the United States.<sup>10</sup>

Still, Mondragon’s subsidiaries operate like standard firms, despite the fact that their aim is not to maximize profit for stockholders but to maintain co-op jobs in the Basque country. Many analysts trust that Mondragon intends to do right by its non-member employees. Others, to the contrary, see in Mondragon’s international business strategy confirmation that co-ops cannot survive in a global capitalist sea: cooperatives either give in to competition and degenerate into capitalist firms or they founder. Yet contradictions regarding working conditions and class factions also played out closer to home and have a longer history; they pre-date Mondragon’s globalized labor force and therefore suggest that they are not only the consequences of Mondragon’s integration into the global economy but also of the inescapable limits of the ability of cooperatives to challenge capitalist social relations.

## Labor and Struggle at the Local Scale

My ethnographic study of a Fagor co-op in the late 1980s to early 1990s, before the international corporate strategy took off, showed that shop-floor conditions, rank-and-file participation in decision-making, and workers’ feelings of motivation were not better than they were in a neighboring capitalist factory with a unionized workforce. During the time of my research, Fagor hired consultants to lay the groundwork for just-in-time production. Assembly jobs were redesigned for greater efficiency, flexible work schedules replaced regular hours, and a speedup was introduced. Unsurprisingly, co-op workers were physically exhausted and emotionally stressed. Worker-ownership did not shield them from factory regimes that were devised for profit maximization and workplace discipline in the capitalist market. Neither did the formal structures of democracy translate into the real exercise of participation on the shop floor. Managers were notably engaged and active in co-op governance, but workers were often inactive and uninterested. Meanwhile, in the neighboring factory I studied for comparison, an activist union council used contract provisions to take a meaningful measure of control over its workplace.<sup>11</sup>

**Worker-ownership did not shield [co-op workers] from factory regimes that were devised for profit maximization and workplace discipline in the capitalist market.**

A study by business management expert Iñaki Heras-Saizarbitoria suggests that this gap between formal rights and real power persists today. Heras-Saizarbitoria observes that much of the popular and scholarly literature on Mondragon mistakes the views of executives and managers and Mondragon’s formal structures for the facts of day-to-day activity, while the perspectives of rank-and-file co-op member-workers are largely missing from their accounts. In interviews with member-workers in industrial co-ops, he finds a “decoupling” of

co-op principles from workers' attitudes and experiences, and he observes little participation in decision-making and low levels of debate and internal reflection. He concludes that democracy is not effectively exercised in daily work life. Interviewees do not aspire to greater involvement, rather they primarily value their job security and act in "compliance" with management. They use a managerial discourse that rehearses the pressures of global competition and offshoring to express their "sense of neglect or of giving up" and to explain the necessary degeneration of democratic principles if the co-ops are to remain viable. Heras-Saizarbitoria believes further that as a powerful corporate actor in the region, Mondragon has played a key role in disseminating "dominant regimes of managerialism and productivity" that shape policy at the level of the Basque autonomous government.<sup>12</sup>

I likewise saw that the co-ops had political ramifications in a wider social field. Compared with workers in the standard firm, co-op members were less involved in and showed less solidarity with the Basque labor movement, which at the time was part of an active leftist coalition for socialism and independence for the Basque country. This was made clear on the occasion of the 1990 metal-sector strike for the annual contract, when co-op members stayed on the job while workers in Mondragón's other factories walked out. (This was an external solidarity strike, and therefore permissible by co-op rules.) Although they were not covered by the national agreement, they had reason to be there, as their salaries were pegged to the contract wage. More important, their solidarity was expected as fellow workers in the metal sector and an important part of the local working class. Their absence was palpable, and workers I talked to took it as a slight to codes of solidarity.<sup>13</sup>

This legacy had ramifications when Fagor members took to the street for their jobs and their capital accounts, which were sacrificed in the bankruptcy agreement. A longtime labor movement activist told me that he joined the demonstrations in defense of jobs but did not support subsequent actions to fight for co-op members' capital accounts.<sup>14</sup> To him, this money was a symbol of the ways co-operators divorced themselves from regional struggles,

and it represented their financial self-interests over working-class affiliation. The Mondragon co-ops engendered difference and division in the town's working population decades before reproducing them on a global scale.

## Cooperatives and Politics

Mondragon offers guideposts for worker self-organization, equitable pay scales, and keeping capital in place. For the current moment of widespread precariousness, Mondragon extends employment as a right of membership rather than the prerogative of capital, and workers point to job guarantees as the most prized aspect of co-op membership. No one on the side of workers would underestimate these achievements. Equally, they should not ignore the insecurity, lack of membership rights, and low pay of temporary workers and subsidiary wage laborers. Nor should they minimize the fact that workplace democracy is of little day-to-day salience for member-workers and cannot insulate them from the market.

***Mondragon extends employment as a right of membership rather than the prerogative of capital, and workers point to job guarantees as the most prized aspect of co-op membership.***

The bankruptcy of Fagor Electrodomésticos exposes the limits of Mondragon to overcome contradictions of the capital-labor relationship, even if capital takes the form of a cooperative corporation and exploitation is displaced to international subsidiaries. For some, the solution to the divisions in the local working class and to global inequalities is to expand the system and spread cooperatives all over the world. Yet, if we concede that security, community-based economy, and formal workplace democracy in the Basque country rest on exploitation and insecurity elsewhere, including temporary workers close to home, then scaling-up begs the question, albeit at a greater scale.

Although cooperatives can increase the immediate social welfare of members, design

economic democracy in their workplaces, and hold out hope for a more equitable and socialist society, they are inevitably constrained by market pressures and tend to become “defensive towers in a landscape that they cannot change by their presence.”<sup>15</sup> The larger task of social transformation requires strategies and alliances that lead co-op members and activists to take a role in a wider movement for social betterment, at local and global scales. USW co-ops may set such a course. The union-co-op model provides worker-members with union representation and a collective bargaining agreement, and this may help ensure their power vis-à-vis managers, whom they vote to appoint but whose perspectives and interests may differ from their own. In addition, their union affiliation will connect them to workers in non-cooperative workplaces, and possibly, in turn, to larger working-class organizations and struggles. As union co-ops open in the United States, it will be important to study the experiences of rank-and-file workers and to document working conditions and the exercise of participatory democracy in daily work life. It will likewise be critically important to see what kinds of connections co-op workers may develop to broader collectives, struggles, and movements.

***The union-co-op model provides worker-members with union representation and a collective bargaining agreement, and this may help protect their power vis-à-vis managers . . .***

The current moment—when activists foment cooperative experiments; city governments, banks, NGOs, and community organizations collaborate to bring them about; and economic crisis and austerity expose the failure of capitalism to secure the common good—may prove to be an auspicious time when co-ops can contribute to a wider-ranging effort for progressive social change. All the more reason that we should ask difficult questions of the Mondragon model and about the division and segmentation of labor versus alliance and solidarity, at local and global scales.

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### **Notes**

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**Sharryn Kasmir** is professor and chair of anthropology at Hofstra University. Her research focuses on workers in industrial and de-industrialized cities, and she has conducted long-term ethnographic fieldwork in the Mondragón cooperatives in the Basque region of Spain and at GM's Saturn automobile plant in Tennessee. She is the author of *The Myth of Mondragon: Cooperatives, Politics and Working-Class Life in a Basque Town* (SUNY Press) and co-editor of *Blood and Fire: Toward a Global Anthropology of Labor* (Berghahn).