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THE ROLE OF PRODUCER CO-OPERATIVES IN EMPLOYMENT CREATION[1]

*Saul ESTRIN**

1: INTRODUCTION

The theme of this lecture is the potential role of producer co-operatives in employment creation, with special reference to the experiences of Western Europe and the United States. There has been a significant upsurge in the number of co-operatives in these countries, and particularly since the recession set in from 1974, with many of these firms having been founded entirely from scratch. It is our intention to describe, classify and explain this upsurge, and to draw policy conclusions from these experiences for future enterprise and institutional arrangements conducive to the development of a healthy co-operative sector.

Our first purpose is informative, and to that end we provide in the following section descriptive statistics on the size of the co-operative sector in various developed economies and its growth during the 1970's and early 1980's. These data suggest that it will be useful to classify the creation of co-operatives according to the way that the organisation is founded; — by rescues of declining capitalist organizations, by handovers of existing firms from public or private hands to their labour force and creations of co-ops from scratch. We therefore go on to provide detailed information on this topic for Western Europe and the United States as well as to discuss the theoretical issues raised by the categorization. In the fourth section we analyse both empirically and theoretically the sectors in which co-ops appear most easily able to collect and use information on the size distribution of co-op sectors to

* London School of Economics, Houghton Street, London WC2A 2AE England.

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[1] I would like to thank Avner Ben-Ner, John Cable, Branko Horvat and Derek Jones as well as participants in the Fourth International Conference on the Economics of Self-Management for helping me to develop the ideas surveyed in the lecture. Needless to say, they take no responsibility for my remaining errors or misinterpretations.

discuss issues of scale and capitalization. The last major topic concerns the internal arrangements for the organization of the co-operative, with an attempt to classify firms according to their rules with respect to outside workers and outside owners. In the absence of data on these issues, the bulk of the discussion is theoretical. We conclude by drawing the implications for future economic research and for policy.

This lecture has two underlying aims. The first is to provide background material and perspectives for some of the sixty or so presentations to be made at this conference over the next three days. The literature on workers' self-management has been developing extremely rapidly in recent years and this presentation will highlight what I consider to be some of the potentially most fruitful avenues of research. The second objective is to point theoretical and empirical attention to the wealth of new experiences, case study information and data which have become available with the rapid growth of Western co-operative sectors. The traditional labour-management literature presented a monolithic picture of co-operative's objectives, behaviour and performance, perhaps best expounded in Jaroslav Vanek's (1970) classic contribution. Even a cursory survey of recent developments in the co-operative sector suggest that the story is more diverse and complicated than this — with respect to institutional arrangements and policy support as well as to enterprise behaviour. The research agenda now becomes to infer causal structures running between internal rules and supportive organizations on the one hand and long term survival and efficiency of the labour-managed firm on the other. On this basis, policies to foster a co-operative sector can draw on a systematic understanding and evaluation of the numerous possibilities open to democratic organizational forms.

2. SIZE AND GROWTH OF THE CO-OPERATIVE SECTOR IN DEVELOPED WESTERN ECONOMIES

Producer co-operatives are firms which are owned or controlled by their labour forces, or at least some proportion thereof — the membership — and in which decisions are made through some democratic process and the profits are shared among the worker-members. This definition is not very restrictive. For example co-ops can rent their capital from outside or the membership can own it, individually or collectively. In practice most co-ops have a mix of internal and external finance, though there are significant differences in the ratios of individual to collective asset holdings. The membership may also hire non-voting workers who are paid wages rather than their share of profits, and once again there are numerous differences in the proportion of non-worker members across countries and within particular co-op sectors (see Estrin, Jones and Svejnar (1984)).

The first co-operative was founded by the Rochdale Pioneers in 1844 and the various elements of the co-operative movement — consumer, agricultural and financial as well as producer co-ops — are bound together by the broad principles developed then and most recently formalized by the International Co-operative Alliance in 1966 to be,

1: Open and voluntary membership of the co-operative.
2: Democratic control of the organization, on the basis of one member, one vote regardless of differences in members' individual capital holdings.
3: Limited interest paid on share capital.
4: Equitable distribution of the surplus on the basis of work done in the co-operative.[2]
5: Co-operatives must devote some part of their surplus to education.
6: Co-operatives must co-operate amongst themselves.

All the organizations discussed in the remainder of this lecture conform to a greater or lesser extent with these principles, and in particular with the first four of them which provide a formal characterization of the producer co-operative.

A: Co-operative Job Creation and the Level of Unemployment

A study for the European Commission (CECOP (1983)) reported that in 1981 there were 13,900 producer co-operatives in the European Economic Community operating broadly on the lines of the six principles enumerated above. These firms employed some 520,000 people in 1981 and had a total turnover of $ 8.4 billion. In the period 1976—1981, some 6,700 co-ops were formed in the EEC, creating some 220,000 jobs. This impressive performance is matched by growth in the Mondragon group of co-operatives in Spain and in the United States. Mondragon co-ops virtually doubled their employment levels during the 1970s to reach a total of 16,000 workers by 1980 while Bradley and Gelb (1983) report that in the United States over the period 1970-79, some 50,000 to 100,000 jobs were created or preserved by workers' takeovers.

This rather remarkable record is detailed in Table 1. Column A provides the CECOP estimates for EEC contries and Column B my own estimates based on a reduced figure for Italian job creation, explained below. Even with the reduced estimates, it would appear that co-ops in the EEC created some 114,000 jobs over the period 1976—1981.[3] But before we become too euphoric at the growing size of the co-op sector and its role in job creation, the magnitude of the problem faced by EEC member countries is shown in the first column of Table 1 and illustrated in Graph 1. This plots the most optimistic evaluation of co-operative sector employment and EEC unemployment against time over the period 1976—1981. In 1981 there were 9 million unemployed in the EEC and of the 120 million people in employment only some half a million were working in the co-op sector. The increase in unemployment

[2] This is for producer co-operatives. For consumer co-ops, profit distribution is based on consumers' expenditure and so forth for other types of co-op.

[3] Comments from participants at the Conference suggest even this figure may be an overestimate, since it includes the creation of some 11,000 jobs in 165 new Danish co-ops which may not in fact be producer co-ops.

between 1976 and 1981 was 3.6 million while at the most optimistic, the number of jobs created or saved in co-ops was a quarter of a million. Unemployment has continued grimly to increase since then, by 4.5 million to January 1985. There is no detailed information on employment growth in co-ops over the period, but such discursive material as is available indicates that at best, the pace of the 1976—81 period has been maintained.

B: The size and growth of the major European co-operative sectors

In Tables 2, 3, 4 and 5, we provide information on the size and growth of the co-operative sectors in four European contries — France, Italy, the United Kingdom and the Mondragon co-ops in Spain. The data in Tables 2, 3 and 4 provide the basis for the summary already discussed in Table 1.

Table 2 enumerates the number of firms and employed workers in the four co-op sectors. The largest co-op sector by far, in Western Europe and in fact in the Western world, is the Italian, with around 80% of the total number of co-op employees in the EEC. In 1981 the Italian co-op sector dominated by a factor of ten employment in the still large French co-op sector; by a factor of more than twenty five the better known Mondragon sector and by a factor of sixty, the small UK sector. In 1981 there were more than 11,000 producer coops in Italy, as against around 1,000 in France and 500 in the UK.

The Italian co-op sector also comes out on top in terms of job creation. If we accept Lega estimates for the entire co-operative sector in Italy, given as Column A, some 200,000 jobs were created between 1976 and 1981. If we prefer instead to stick to the number of firms and jobs which are recorded within the 3 Italian co-op federations — Lega, the Confederation and the Association — we get Column B, and the figure of 90,000 new jobs created between 1976 and 1981. Column B is clearly an underestimate since there are co-ops in Italy which are not associated with one of the federations, but the quality of the data for the extra four thousand non-federated co-ops employing perhaps 60,000 workers is questionable.

Table 3 provides more detailed information on the size, structure and growth of each of the three Italian federations (see also Zevi (1982)). The largest, by a factor of three in terms of employement but more marginally with respect to the number of co-ops, is Lega, the National League of Co-operatives and Mutual Societies. Lega, the oldest of the Italian federations was founded in 1886, and has affiliations with the Communist Party. The bulk of its member co-ops are situated in the north and centre of the country, with particularly large conglomerations in Emilia-Romagna, Lombardy and Tuscany. Lega is divided into two nationwide associations, the ANCPUL (National Association of Production and Worker Co-ops) which covers the construction, industrial and professional service sectors and the ANCS (National Association of Service Co-operatives) which covers services and transport. In 1979, the majority of Lega workers were employed in the construction trade,

an estimated 140,000 of the approximately 250,000 total labour force, in moderately large firms employing on average some 175 workers. The second largest grouping were employed in the more numerous service co-ops, with an average size of fifty employees. Only some 18,500 of Lega's quarter of a million workers were actually employed in the industrial sector; again in co-ops with an average size of 50 workers. Moreover employment growth has been concentrated in the construction and the service sectors; only some 11,000 new jobs were created in the industrial sector during the entire 1970s, compared for example with 24,000 in the service sector in the three years following 1976.

Information is more sparse for the Confederation (the Italian Co-operative Federation [CCI]), a social Christian group of co-ops founded in 1919 but disbanded by the Fascists and reconstituted after the Second World War. Once again, the majority of Confederation members are in the north and centre of Italy, but representation in the south is larger than for Lega. The Confederation contained some 1,600 co-ops in 1979, the majority of them in either the construction or service sectors. Only around 15% of Confederation co-ops, and probably a smaller proportion of total employees, were working in the industrial sector. There are few details on employment by sector but Sibille (1982) suggests that Confederation co-ops are typically smaller than their Lega counterparts, concentrated in the building sector of construction-and-with-fewer-service co-ops producing "social" goods. The absolute growth of total employment in the Confederation, however, is comparable to that of the rather larger Lega grouping.

The third Italian Federation is the Association (the General Association of Italian Co-operatives [AGCI]), which was founded from a split in Lega by Republican and Social Democratic groupings. Most of its adherents are housing co-operatives, though more than one thousand producer co-ops are also federated, primarily located in the south of Italy. Around 75% of the co-ops in the south of the country are affiliated with the Association which is less well organized centrally than the other two federations. The majority of affiliated co-ops are in the service or transport sector, though some 15% are involved in industrial production. Sibille (1982) estimates that some 50,000 workers were employed in Association co-operatives in 1979.

There is a considerable discrepancy between Lega's estimates for total job creation by co-ops in Italy between 1976 and 1981, reproduced in column A of Table 2, and the rough number, calculated by Sibille (1982) for employment creation within the federations. The latter is reproduced as Table 4, and gives an estimate of some 18,000 new jobs per annum in 430 new co-ops. The largest number of new jobs are being created by Lega over the period, but the Confederation is not far behind and if we consider Table 4 jointly with Table 3 it is clear that the latter has a significantly faster proportionate rate of employment growth. Moreover, on average new Confederation co-ops are larger than their Lega counterparts, with 46 workers as against 38. The assumption that this annual level of growth of employment in the federations was maintained over this period 1976—1981 gives us Column B of Table 2.

Co-ops first appeared in France as early as the 1840s, and in 1848 the new government briefly backed the National Workshops Scheme. A supporting organization first appeared in 1884 from a national confederation of 29 societies; in 1937 it changed to its current name, SCOP (the General Confederation of Workers' Productive Societies). Over the last 70, years, the French have also developed what Hadley (1973) describes as a "sound legislative framework" for co-operative production and the French co-op sector has attracted considerable attention in French and Anglo-Saxon literatures (see Viennay (1966), Sibille (1982), Oakshott (1978), Thornley (1981), Batstone (1982), Stephen (1984). However, as Table 2 shows, despite its size and the fact that there has been very considerable growth in the number of firms, employment in the French co-op sector has grown much more slowly than in Italy to 1981; by only around 3,500 workers or 12% since 1970. An almost exact doubling in the number of firms between 1975 and 1982 led to an increase in employment of only 13% in the co-op sector. The reason, of course, is that the new co-ops are typically very small firms while the older larger co-ops or rescues are simultaneously going under (see Perotin (1985) on French co-op life-cycle and survival).

In contrast, Table 2 reveals that there has been an extremely rapid proportionate rise in the UK co-op sector, admittedly from a low base in 1970. The traditional British co-op support organization is the Co-operative Productive Federation (CPF), founded in 1883 and bringing together industrial and provident sociaties formed by retail co-ops or in recession (see Jones (1974, 1982), Jones and Backus (1977)). But this well-established co-op sector was in severe decline from the Second World War, and had diminished to 17 firms employing 1,600 workers in 1970. Two new support organizations which emerged during the 1970s were ICOM, the Industrial Common Ownership Movement and CDA, the Co-op Development Agency. By 1976, the co-op sector had almost doubled in size, to 3,000 workers employed in 47 coops. The sector doubled again in employment terms by 1980. The UK had the fastest increase of our sample; in proportionate terms between 1976 and 1981, with the number of firms rising by almost 1,000% and employment by 133%. This rapid growth continued after 1981. In June 1984, the CDA reports that there were 911 coops in the UK, employing almost 9,000 workers (6,544 full-time and 2,220 part-time).

The final columm of Table 2 shows that the spectacular performance of the Mondragon group of co-ops in the 1950s and 1960s, reported in Thomas and Logan (1980) and Bradley and Gelb (1983b) was maintained in the late 1970s. The group created some 4,000 jobs over the period 1975—80, a futher increase in employment of some 25%. However it is possible that the picture is not quite so rosy in recent years. Bradley and Gelb (1985) report that employment in the Mondragan industrial co-ops has been gently falling since 1980, by around 500 workers up to 1983.[4]

[4] This interpretation has been questioned in private communication by Henk Thomas, who argues that total Mondragon employment is growing, though there is a restructuring from industry to services and in particular the banking sector.

In Table 5, we report the number of jobs created in entirely new co-ops for each year, 1970—81. In Italy, there was a gradual acceleration in the rate of development of the co-op sector, which began at around 300 new co-ops per year in the early 1970s and increased to some 500 per year in the mid-70s and to more than one thousand by the early 1980s. The pace of job creation approximately doubled to 40,000 per year between 1976 and 1981. One sees a similar acceleration in France, from around 50 new firms in the early 1970s to more than one hundered in 1978 and more than 200 in 1981. Employment creation grew apace, from 800 people in the early 1970s to around 1,300 new jobs in 1978 and more than 3,000 in 1981. The curve is even steeper in the UK case because the base is so low, rising from very few new creations in the early 1970s, almost doubling each year to reach around 140 new firms in 1981. However, as in Italy, the best years in terms of employment creation were the late 1970s and the new creations of the early 1980s were of rather smaller firms.

The Italian and UK figures in Table 5 are similar to those implied by Table 2, in the Italian case because co-ops which close in the first year of operation are excluded and for the UK because Table 5 is actually constructed from Table 2. However, there is a marked discrepancy for the French case which seems likely to reflect a wider problem; the significant failure rate of new co-ops. Between 1975 and 1981, Table 5 reveals that some 750 new co-ops were formed employing 11,000 workers. The net figures from Table 5 are 535 firms and 4,000 jobs. The gap must be accounted for by bankruptcies, conversions out the co-op form and in particular by reductions in the employment levels of existing firms during the recession.

Thus there has been an upsurge in the number of co-ops and the number of workers in co-ops. This is not limited to the countries reported in Table 2. For example, CECOP note that in Denmark, the number of co-ops increases from 635 in 1976 to 800 in 1980, increasing employment from 35,000 to 46,000, though these figures may be overestimates. In Holland over the period 1976—80, the number of co-ops rose from 80 to 450 and of employees from around 2,000 to 6,000. There appears to be less documentation on these cases and parallel developments elsewhere.

3. CO-OP GROWTH BY MODE OF CREATION

The wave of new co-ops in Western Europe and the United States were founded via three distinct routes, and it will be argued that the appropriate policy prescription hinges on the precise category of formation. In general, co-ops can be created,

(1) As rescues of bankrupt or declining private firms. This category tends to increase significantly in periods of recessions.

(2) As conversions or handovers of other types of firms — private, joint stock or state-owned.

(3) Firms created as co-ops from scratch.

It will also be useful to retain the distinction between co-ops created via pressure from below, as for example in the numerous health food or bookshop co-ops in the US and UK, or coops created from above by outside agents, be they paternalistic owners, unions or the state. One might expect that motivational effects would be more pronounced in the former category. Unfortunately, there is rarely data on this point and information must be gleaned at the case study level.

There is in fact not much hard empirical evidence as to the percentage of firms in the three categories, but what has been located for France and the UK is presented in Table 6. SCOP actually collects data on the mode of creation, and over the entire period 1977—82 we find that the bulk of new French co-ops were created from scratch (60%), with some 29% being rescues and the remainder being conversions.[5] However, since co-ops created from scratch are generally relatively smaller, the picture is almost exactly reversed with respect to employment creation. Some 63% of new jobs are in rescues and only 31% are in co-ops created from scratch. The same broad pattern is observed in each year, with outliers reflecting particularly large rescues.

The information for the United States tells a similar story. Derek Jones (1984) in his survey on American Producer Co-operatives in Jackall and Levin (1984) reports on the 784 firms created in the United States since the 1840s. He groups the co-ops into twelve "clusters",[6] with formation rates peaking in the 1880s and 1930s, each decade generating more than 270 new firms. Of the 784 creations, Jones has data on the mode of creation for 384 co-ops. Of these, 82% were transformations from other types of organizations, largely rescues or buyouts and only 18% were created as entirely new enterprises in the co-op form. Jones also has information on who was involved in the co-op's foundation. Of the 82% of transformed firms, only around one half were established at the initiative of the workers themselves. However, more than 80% of co-ops created from scratch arose from the initiative of their own worker-members.

The data for the UK in Table 6 is not entirely consistent with this story. There have been relatively few large rescues in Britain since the unsuccessful large co-ops formed when Tony Benn was Minister of Industry in the mid-1970s. The bulk of new co-ops and of jobs in new co-ops over the period 1975—1981 have in fact been in organizations founded as co-ops from scratch; some 90% of firms and 80% of jobs respectively with little variation from year to year. There were virtually no conversions of traditional organizational forms into co-ops in the

[5] SCOP categories are actually of firms which are immediately converted to co-ops from other organizational forms and of firms which are converted after a lag during which they were non-operational. It seems likely that the former group will include some rescues as well.

[6] Six clusters are defined by their product — foundry, cooperage, shingle, plywood, refuse collection and reforestation. One was initially founded by the Knights of Labour, and another self-help group was founded in the 1930s and subjected to close public scrutiny. Since 1970, two new groups have emerged — employee owned firms and collectives. Finally, he categorizes unclassifiable co-ops of the 1860—89 and 1896—1937 periods as further clusters (See Jones (1984)).

UK over the period. It seems likely that the British experience differs from that of France and the US because of the critical role of the new support agencies in recent years.

2.1. *Rescues*

We now turn to a more detailed analysis and evaluation of co-ops founded in each of the three ways. Discursive evidence for Italy (see Zevi (1982)) confirms the previous findings — that the majority of new co-ops or at least new jobs in co-ops come from rescues of existing capitalist firms. This of course explains why the waves of co-op creation tend to be associated with periods of prolonged recession or structural adjustment — the 1880s, 1930s and 1970s. There are examples of large rescue operations in most developed Western economies, such as the Benn co-ops in the UK — Meridan, Kirkby and the Scottish Daily News (see Bradley and Gelb (1983)) — Rath Meat Packing, South Bend Lathes and the Denver Yellow Taxi Company in the United States (see Gunn 1984)) and the Lip or Manuest takeovers in France. For rescues to make any economic sense as a long term industrial strategy for employees or the state, we need to explain why co-ops might be expected to do better than capitalist firms. We here outline four broad reasons, though no doubt others will emerge during the discussions of the conference.

A: The ability of co-ops to pay lower real wages:

This disquieting feature of the rescue phenomenon can be illustrated with reference to Diagram 1. We suppose that a capitalist firm hires on its labour demand curve, mrpl. If the product market is depressed, the firm will be making a loss at the going market wage, wc. We can generalize this analysis to the case when the labour force is unionized, and the outcome represents a bilateral monopoly bargain between the firm and the union in which the latter sets a wage rate, wu (> wc), and the firm chooses employment along its marginal revenue product curve at LU (see Oswald (1982)).

Denoting profit by Π, revenue by R, fixed costs by F and employment by L, we know that with only one variable input,

$$\Pi = R - F - wcL \tag{1}$$

while under labour-management, the traditional objective of average earnings per head (Y) is:

$$Y = \frac{R - F}{L} = wc + \frac{\Pi}{L}. \tag{2}$$

Following Ward (1958), the y-curve in employment space plots an inverse U-shape. If we assume that the loss-making capitalist firm is non-unionized and commence at (wc, L), then its conversion into workers' co-op

lie on a contract curve in wage-employment space, at a point of tengency equation (2). At the same level of employment, earnings are below the competitive wage (y < wc).

Income-maximizing behaviour leads us to predict that, after the rescue, the new co-op will hire more workers to spread the losses around further, moving ultimately to (y*, L*). However, this cannot get us back up to the wages in the private sector, wc, and of course may not happen if existing members are worried about the effects of hiring new workers for their future earnings. The point is that the fall in wages is independent of the co-op maximand; it comes about because of the change in organizational form, not of enterprise behaviour. The result carries over to the monopoly union case as well. The replacement of the capitalist form by a co-op leads to an immediate wage cut from wu to y_1 at the initial level of employment, LU, which cannot be restored by adjusting employment to L*. If Diagram 1 were redrawn so that the average earnings curve cut the mrpl curve at wc so that after adjusting employment the co-op was paying a competitive wage, the rescue could be viewed as simply breaking the monopoly union's power and restoring market clearing wages.

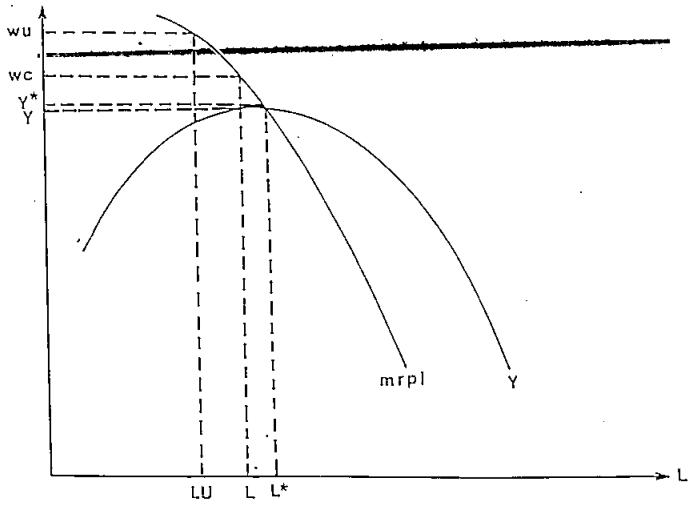

Diagram 1.

The problem with this analysis is the prediction that new co-ops will act to increase employment after the rescue, when experience indicates exactly the opposite adjustment; co-op rescues tend to *reduce* employment as well as wages in the early days after the takeover (see Bradley and Gelb (1983), Gunn (1984), Jackall and Levin (1984)). This response can probably be best formalized in the context of a model for unionized capitalist firms in which the management and the union bargain over both employment and wages. As McDonald and Solow (1981) have shown, such "Pareto efficient" bargaining leads to outcomes which

lie on a contract curve in wage employment space, at a point of tangency between iso-profit curves ($\Pi(\cdot)$) and union indifference curves (IC). Such a curve is drawn as the line AD in Diagram 2. For our purposes, the crucial point of efficient bargaining theory is that profit maximizing capitalist firms operate off their labour demand curve, at a point such as D in Diagram 2, determined by the relative bargaining power of the two parties. The outcome in a bargaining model — (wb, Lb) in this case — therefore formalises feather-bedding within the enterprise. This arises because unions have the power to extract corporate surplus to satisfy their own objectives, which include employment as well as earnings.

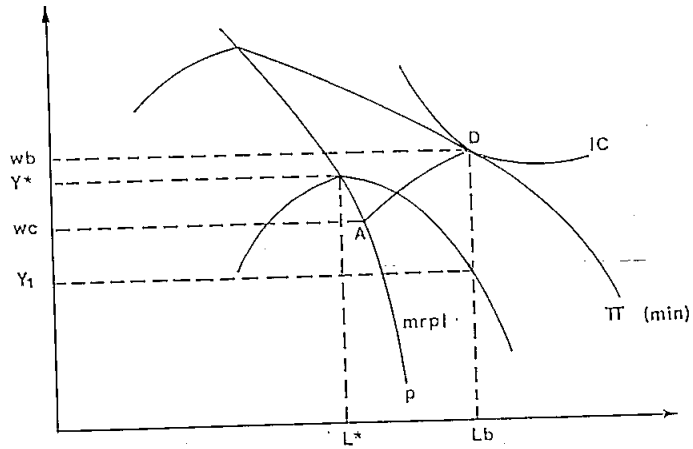

Diagram 2.

As we have drawn Diagram 2, the capitalist equilibrium occurs at a wage-employment combination where the firm is making a loss. This can be interpreted as the consequence of recent adverse changes in product market conditions or very strong unions which can push management into operating with losses, at least in the short term. If the enterprise is then threatened with closure and ultimately transformed into a co-op, the immediate consequence is a reduction in wages from wb to y, at the initial level of employment (see Ben-Ner and Estrin (1985) for a more formal comparison of unionized capitalist and labour-managed firms). However, in the longer term the co-op membership will seek to reduce employment from Lb to L* in order to raise earnings towards the maximum level, y*.

The unionized case is mentioned in part for greater realism, but also to suggest an explanation for the wary attitude traditionally shown by unions towards the formation of co-ops (see for example the evidence presented by UK unions to the Bullock Commission (1976), or work in the socialist tradition such as the Webbs (1920)). Diagrams 1 and 2 suggest that unions may be right in viewing the rescue of ailing capitalist firms as wage cutting or union breaking devices as well as ways of

saving or creating jobs. A sophisticated version of this argument is made by Peter Jay (1980), and there is an analytical similarity between this view of rescues and Weitzman's recent scheme for employment creation, profit sharing (see Weitzman [1984]). In order to increase aggregate employment, profit sharing seems likely to reduce real wages, particularly in the presence of unions. However, as Domar (1966) has highlighted, all these lines of enquiry hinge crucially on assumptions about the labour supply side.

The evidence on the weakening of unions after co-op rescues is mixed. Bradley and Gelb (1983) report surveys revealing that unionization was reduced after the workers' takeover in the Scottish Daily News and Manuest. In the latter case, the proportion of the labour force which was unionized fell from 95% to 40%. Moreover, unions play a limited role in the key European supporting organizations; SCOP, the CDAs and to some extent the Italian federations. Finally, in Mondragon co-op members seem to perceive the democratic structure as being an alternative to unionization. Bradley and Gelb (1983b) report that some 86% of workers in private Spanish firms support a major role for unions within the enterprise, but only 25% among the Mondragon labour force. Accounts of other takeovers and rescues confirm the relevance of this dilemma (see Bradley and Gelb (1983), Gunn (1984), Jackall and Levin (1984). On the other hand, Long (1979) argues that workers do not perceive a reduced need for unions after rescues, and unions have actually been instrumental in numerous cases of employee takeovers, for example Rath Meat Packing (see Gunn (1984)). Unions have also been involved in developing strategies for the development of a co-op sector, such as the Welsh TUC project (see Logan and Gregory (1981)).

The evidence on wage reductions following rescues is more straightforward. Wages declined by between 20% and 30% in the Benn co-ops and by 26% in Tembec, Canada over the three years following the rescue (see Bradley and Gelb (1983). Rath Meat Packing workers accepted wage cuts of $20 per week and suspension of pension fund payments and half their holiday pay, whilst Manuest workers accepted an initial wage cut of 5%. Other examples are given in Eccles (1981), Stein, Wood and Hamer (1979). More generally it would be interesting to compare wages in co-ops and capitalist firms. Virtually the only comparative data is given in Jackall and Crain (1984) who note that pay in co-ops is typically lower than the average for the industry — at least in their sample of 100 small US co-ops. For example in 1980 printing co-ops paid $3.78 per hour against $7.09 for the industry as a whole, food sales co-ops $2.73 against $5.87 elsewhere, and bookstores, $3.58 against $4.28. These results could reflect co-op members' attitudes to the labour-leisure choice, but seem likely also to contain some element of loss distribution along the lines of Diagrams 1 or 2.

B: The co-op incentive effect

The previous discussion has assumed that capitalist firms and co-ops operate with the same technology and an identical degree of internal organizational efficiency. In fact there are a number of reasons to

believe that co-ops can produce more efficiently than capitalist firms in given circumstances, and may therefore be able to survive when private companies cannot. Theoretical interest has therefore begun to focus on the issue of productivity or incentive effects and important new lines of research are being opened up, some of them being presented at this conference.

One approach is being developed by John Cable (1984) who develops a game theoretic model based on the concept of the prisoners' dilemma. The assumed structure of the payoffs lead both capitalist owners and unions to opt for a strategy of conflict in the hope of large gains if they win completely, which of course neither can because of the combative attitude of the other. A Pareto superior outcome does however exist if both sides choose to co-operate, and democratic arrangements are viewed a way of institutionalizing such outcomes. Thus the nature of the organization affects its efficiency via the behaviour of management and workers in the production process. A parallel line of enquiry, being developed by Avner Ben-Ner (1985), focuses on the consequences for corporate performance of eliminating conflicts between owners and workers, in terms of eradicating informational asymmetries and related opportunistic short-sightedness and the exercise of monopoly power. This leads to contractual inflexibilities between the two sides in a capitalist firm, and will therefore reduce the relative price of labour and capital in the producer co-operative.

These positive incentive effects arguments have been questioned by theorists in the property rights tradition such as Alchian and Demsetz (1972) and in particular, Jensen and Meckling (1979). Recently the case has been extended by Furuboin (1985) to bring into question the productivity benefits of co-determination. These authors point to the dangers of under-investment because of collective ownership rights, problems in monitoring and risk bearing, relaxation of labour discipline and a weakening of central co-ordination of the organization.

As is argued elsewhere (see Estrin, Jones, Svejnar (1984)), this disagreement is best resolved by appealing to the data and the evidence strongly favours the proposition that company performance is enhanced after rescues, at least in the short-term. Bradley and Gelb (1983) report productivity increases of 30% — 40% in Meridan (UK) and Pioneer (US) after rescues. Kirkby (UK) raised output from 7,000 to 13,000 radiators after the rescue while employment was cut. In the US Whyte (1978) reports how profits increased in a number of firms after rescues and Long (1980) finds that in a sample of recent conversions, productivity increases were positively associated with the scale of employee ownership. On the other hand, Jones (1984) cites cases in which the reverse effect holds, though he notes that case studies of worker takeovers typically report reduced absenteeism and improved industrial relations. Further evidence on this score is presented in Greenberg (1984), who reports that there are significant differences in employee attitudes to work effort, group morale and labour monitoring in the two types of organization, always in a direction favourable to the co-operative. For example, in capitalist firms only some 34% of the surveyed labour force

feel very responsible for the success of the whole plant, as against 55% in co-ops.

The limited comparative evidence also supports the hypothesis of productivity augmentation in co-ops. Berman (1967) suggests that U S plywood co-ops are more productive than the industry average, while Conte and Tannenbaum (1978) find in their study of 98 firms that profit-to-sales ratios are significantly higher in employee-owned companies. Thomas and Logan (1980) use ratio analysis to establish that labour productivity and profitability are higher in Mondragon than in comparable capitalist firms. Finally, Levin (1984) shows that in 1972, Mondragon co-ops were more efficient in their use of capital and labour inputs combined than the average of the largest five hundred firms in Spain.

Various studies have established these findings more rigorously (see for example Jones and Backus (1977), Cable and Fitzroy (1980 a, b), Estrin, Jones and Svejnar (1984)). The analysis has been based on estimating production functions which are augmented by measures of the degree of workers' participation, with tests for the sign and significance of the latter variables. The most exhaustive study in this genre to date is by Defourny, Estrin and Jones (1985), who use a large enterprise level data set for French co-ops in the search for an association between output and various measures of the degree of participation when factor inputs and various possible determinants of the level of output have been taken into account. The three key issues for this sort of study are the functional form to represent production technology, specifying the other control factors and proxying for the degree of participation. Defourney *et. al* choose »best-fitting« functional forms from a broad sample of possibilities and use a wide variety of control variables including a quadratic in the age of the firm and dummies for sector and subsector, region, the mode of creation and the enterprise legal form. They also employ numerous proxies for the degree of participation to take account of effects via financial incentives and via participation in decision-making and in ownership of the firm. They find a positive significant association between output and the proxies for the degree of participation, even when all other factors have been taken into account. The results prove to be robust, despite statistical tests or re-estimation for simultaneous equation bias, multicollinearity and reverse causality. The findings are also broadly consistent across different specifications of the model. Overall, the typical degree of participation in an average French co-op augmented output by around 5% in 1979, but this reflects the low mean level of participation as much as the smallness of the productivity effect. Moving from zero to full participation raises output by 12% on average, with even larger effects at the disaggregated level, which reach 25% in certain industries.

C: Ability of firms to survive when capitalist firms cannot

Over and above cutting costs or raising productivity, co-ops may be able to survive when capitalist companies cannot for a number of reasons. Bradley and Gelb (1983) forcefully argue that the central organizing unit of a multi-plant firm may seek over-ambitious yields from a particular plant, which they therefore are willing to sell although it earns a reasonable return for its owners. They trace this attitude to the merger boom of the 1960s which created large holding companies with no real understanding for the product lines or markets of their far-flung empires. The centre reacted by setting high target rates of return for all productive subdivisions, regardless of specific local or technical conditions, and were sometimes interested in selling plants that could not meet them, even if they were mildly profitable. Examples include South Bend Lathes, Vermont Asbestos and the Saratoga Knitting Mill in the U S, though instances are either less frequent or less well documented in Western Europe.

The general version of this type of argument rests on changes in preferences rather than technologies. In changing the entrepreneurial group from capital owners to workers, one alters the objectives of the firm and therefore perhaps its ability to survive in different economic circumstances. For example, workers might be willing to accept lower rates of return from their assets in the co-op, provided job security was guaranteed. Significant recent theoretical work has investigated how co-operatives may open up contractual possibilities to permit some trading of wage for employment risk (see particularly Miyazaki and Neary (1983)). In these models, co-ops are viewed as voluntary contractual associations of workers who combine to pool the risks employees face when producing in an uncertain environment. An important corollary of this approach is that the product supply is typically found to be upward sloping, rather than backward sloping in the tradition of Ward (1958) and Vanek (1970). It seems likely that the possibility of substituting wage for employment risks will be particularly attractive for workers in very volatile trades such as building and construction, which may explain the significant numbers of co-ops found in these sectors. In an alternative approach, Pagano (1983) argues that co-ops may be vehicles to raise worker-members' welfare by freeing up the labour-leisure choice, even though performance measured by strictly economic criteria such as productivity may decline. From this perspective, co-op survival hinges on the relative evaluation placed by co-op workers on the welfare benefits from working in co-ops, economic and non-economic, as against the wages foregone in comparison with the private sector. It seems possible that the individual's evaluation of the non-pecuniary benefits will diminish over time, which may lead to gradual internal decay as the initial fervour surrounding the rescue dissipates.

D: The role of the community

The final reason why co-op rescues may succeed where capitalist firms have failed is the supportive role of the local community. The closure of a plant or factory has significant income and employment effects throughout the local area, and particularly if the firm in question is an important local employer and the area is geographically isolated. A locally founded co-op might be able to draw on community aid, both

in terms of short-term finance and where relevant, market goodwill, in a manner not feasible for private owners. In effect, the co-op may be able to induce local authorities to internalize the broader employment externality of the potential closure by grants which would not be made available to an outside owner.

The potential for local aid is very large. Bradley and Gelb (1983) quote a U S Congress study which estimates that for every 100 jobs saved in a local factory, a further 66 are maintained in local support facilities and services. Moreover, community support and good-will would not necessarily be entirely altruistic; house prices and therefore a significant proportion of many peoples' net worth will be highly sensitive to local market conditions. There is considerable evidence that local authorities have been willing to become involved, particularly in the US and the UK. The role of local Co-op Development Agencies in Britain and in particular the Greater London Enterprise Board in sponsoring rescues and new coops in highlighted in Cornforth (1984), while community involvement is stressed as a conducive factor in the case studies by Gunn (1984). Bradley and Gelb (1983) point out that after threatened closure, rescues have been more likely and tended to be more successful if the companies involved are closely linked and vital to the local community. Clearly more theoretical and empirical work is needed to tie down the potential for local involvement in co-op creation, via rescue or other modes of formation.

Notwithstanding these four points, co-ops founded from private company rescues may still ultimately fail. For example, if product demand continues to decline, the co-op will in the end be forced to close, even if the shutdown point occurs at a lower real product wage than under capitalism. As many case studies note, the co-op may also face a restricted supply of capital which could undermine its long-term viability. Moreoever, the positive incentive effect is a once and for all benefit without a dynamic corollary, and may not last for ever. In particular, workers in low paying co-ops may finally leave for higher income employment elsewhere. Similar arguments apply to local authority grants as a permanent source of income augmentation.

Given these dangers, a long term strategy for co-operative development might involve steering all clear of rescues unless long term viability was established, thereby avoiding too close an association in the public mind between co-ops, corporate failure and economic decline. On the other hand, some might argue that even if they do not survive over the long term, co-op rescues have a valuable short-run role in a capitalist society in mitigating the private welfare losses associated with economic adjustment or transition. Finally, it is possible that co-ops have not emerged in large numbers in Western economies despite their apparent efficiency and attractiveness to workers because of what Simon (1957) has called »bounded rationality« (for other explanations see Putterman (1982), or Ben-Ner (1985b)). Rather than search exhaustively through all possibilities open in an uncertain world, people tend naturally to make choices from a set limited by their own experience. Hence as Fanning and McCarthy (1983) note, co-ops will not spontanously emerge in a capitalist environment because people — workers,

managers, suppliers of capital — rarely experience involvement with them and therefore tend to mistrust them. Rescues open the possibility for broadening peoples' experience in this dimension, particularly in a tightly knit local community, and even if the enterprise itself is not viable, may stimulate future experimentation with democratic organisational forms.

2.2: Conversions

The second category of co-op formation are conversions from other types of enterprise. Though it is hard to draw the lines too tightly, these are distinguished from rescues by the character of the founding agent and the financial circumstances of the firm. With conversions, the founders are the original enterprise owners, rather than the workers themselves and it will be useful to distinguish between private owners, joint stock companies and the state as potential founders. Conversions therefore always represent »top down« rather that »bottom up« modes of co-op creaion. Moreover, they typically take place in successful or at least not drastically unsuccessful businesses. As Table 6 suggests, voluntary conversions of this sort are rare in Western Europe and the United States. The best known examples are in the United Kingdom — the John Lewis Partnership and the Scott Bader Commonwealth — and both grew from divestitures of successful companies by altruistic private owners; John Spedan Lewis and Ernest Bader.

Lewis sold a majority interest in the John Lewis Partnership, in 1929, probably below par, for £ 1 m. In the financial year, 1984/1985, the firm had a capitalization of around £ 520 m, a turnover of £ 1.2b. and employed more than 26,000 partners (John Lewis Accounts (1985)). The innternal arrangements are complex; to balance managerial authority against democratic control. The firm is actually run by a Chairman who is responsible for day to day decisions and appoints a majority of the executive board. However, his powers are balanced by a Central Council, 80% of which is elected by the partners in secret ballot (the remaining 20% can be appointed by the Chairman). This Council appoints the remaining board members and can in the limit remove the Chairman from his post, though only with a two-thirds majority. Other interesting features of the John Lewis arrangements include the very significant bonus payments from profits — around 16% of pay on average over the period 1970—1981 — and the ownership arrangements; in a collective trust rather than individual hands.

The Scott Bader Commonwealth emerged in 1951 and ownership is also vested in a communal trust rather than individual holdings. The company then had a turnover of £ 625,000 and 161 employees. Employment rose to 438 by 1978. Since then the UK chemical industry has been severely affected by the recession, to which Scott Bader has reacted by reducing employment, to around 270 by 1983, all by voluntary redundancy (see Bradley and Gelb (1985b)). Like John Lewis, the company is run in a fairly paternalistic way with a Chairman, currently Gordic Bader, who is appointed for life and nominates a majority of the executive

board. The elected Community Council nominates the remaining board members. In the longer term it is intended that the board will nominate its own Chairman.

In 1958 Ernest Bader helped to found ICOM, the Industrial Common Ownership Movement, which has hilped to foster the new wave of co-ops in the UK, though disappointingly few have emerged as conversions and none as conversions from joint stock companies. Yet the few which have taken place have good records, both in terms of economic performance and effective participation. This is because the enterprises have been already well established as going concerns, and the founders have been careful to avoid the critical weaknesses of other types of new co-ops — management problems and inadequate capitalization. Both the John Lewis and Scott Bader examples reveal an understanding for the needs of professional managers in the short run and a concern for the financial soundness of the organization. This seems to suggest that the best strategy for developing a thriving co-op sector would be legislation facilitating and rewarding private owners for converting their companies into co-operatives. The problem of joint stock firms is more complex because ownership is diffused but Paul Derrick (1985) has begun to develop suggestions for the UK, reminiscent of American Employee Stock Ownership Plans (see Jackall and Crain (1984)), which will encourage stock-holders gradually to sell their holding to workers' trusts. Schemes with similar intentions (although not voluntary) have been developed in Sweden and Denmark (see Meidner (1978), George (1985)).

There is also potential for conversions from nationalized firms. The largest producer co-op experiments in the world — in Yugoslavia (see Estrin (1984)), for a brief period in Chile (see Espinosa and Zimbalist (1978)) — as well as some of the best-thought-out schemes (see Uca (1983) on the plans for the Turkish public sector) have been based on conversions by the state of its own production units into workers' co-operatives. There is probaly considerable scope for further developments along these lines, particularly as public disquiet with the monopoly power and remoteness of nationalized corporations grows. A straw in the wind here may be the recent British privatization of the National Freight Corporation, which was sold to its 25,000 managers and employees in 1982.[7]

2.3: Creations from Scratch

One of the most interesting things about the upsurge in the co-op sector since the mid-70s is that, unlike in previous recessions, it is not entirely composed of rescues. In fact, as Table 6 shows there are an appreciable number of co-ops formed from soratch by groups of workers or support agencies. As Jackall and Levin (1984) note, this seems likely

[7] This is not strictly a co-operative since only some 13,000 employees actually purchased stock, giving them around 85% of the total stock issue. Voting rights are allocated according to stock ownership rather than the one member one vote principle.

to reflect the educational, social and moral standards of the age; increasing affluence and broader and more sophisticated education and training may lead some workers to seek from democratic forms of enterprise organizations the satisfaction from the workplace that traditional firms are unable to offer. This branch of the co-op sector is therefore a response to disappointed or unfulfilled worker expectations and tends to be small in scale, typically fewer than ten workers per firm in the US and UK. These co-ops tend to be more socially and community than profit orientated, which may explain the funding in Defourny, Estrin and Jones (1985) that *ceteris paribus*, entirely new French co-ops are less productive than their rescued or converted counterparts.

The creation of co-ops from scratch appears to satisfy a social need and may be a route for developing a viable co-op sector. However, we immediately run into what Ben — Ner (1985) has called the »entrepreneurial problem«. Self-interested entrepreneurs create economic organizations for personal profit. They will rarely be willing to share that profit around voluntarily with the others involved in a co-operative type of organization. Enterpreneurs will therefore rarely form co-ops and will typically prefer the capitalist type of organization. Fanning and McCarthy (1983) also mention the higher informational costs of forming a co-operative compared to a capitalist firm because the enterpreneurial group must first find an appropriate membership, and point to possible anti-co-op biases in private capital markets. In short, there are many reasons why »bottom up« co-ops will not spontaneosly form in capitalist economies (see Putterman (1982) for further development of these points).

Yet if one believes that workers will typically prefer working in a democratic organization, then co-ops must create an externality in the workplace which justifies public intervention to ensure their creation. This leads us to the central role of co-op support organizations, first noted by Vanek (1970) and stressed by a variety of authors since. It is conspicuous that the successful co-op sectors in Western economies all have large support organizations — the Mondragon Bank, the three Italian Federations and SCOP. The growth of the UK co-op sector is clearly associated with the new agencies, ICOM and the CDA. Co-op support agencies have two broad functions; entrepreneurial to overcome the problems discussed above, and technical to ensure long term co-op survival and viability. It is interesting to note that in the supported sectors in France and Italy, co-ops typically have a very long life, some in excess of 100 years, but where there is no support organization, as in the US plywood co-ops, the life cycle is far shorter.

A: The growth of co-ops by sector and size

Our aim in this section is to isolate the activities and sectors most conducive to the co-operative form of organization, so that the efforts of policy-makers and support units can be focused on areas where the chances of success are highest. Tables 7 and 8 provide information on the industrial structure of co-op sectors around the world. Table 7 is

derived from Pryor (1973) and Table 8 from contemporary Western European sources.

Pryor's figures confirm what we would expect given the entrepreneurial problem: that co-op sectors make up a very small proportion of the total, overall and in most sectors in most countries. However, we observe a tendency for co-ops in the 1950s to be clustered in activities like food processing, textiles, printing and paper and woodworking. Generally they are less common in the heavy industrial or large scale manufacturing sectors such as chemicals or machinery.

Table 8 reveals broadly the same pattern for contemporary co-ops in France, Italy, and the UK. The majority of firms are in construction and services, the former mainly in France and particularly Italy and the latter in the UK. Of the approximately one third of producer co-ops in manufaoturing, activities like printing, textiles, woodworking, and furniture making predominate — labour-intensive artisan trades. Except for conversions and a few successful rescues, we see no co-ops outside Yugoslavia in heavy industrial sectors.

As one would expect in the light of this, most co-ops are small. Table 9 shows that some 45% of French co-ops and 71% of UK co-ops employ fewer than 10 workers. In the whole French co-op sector in 1982, only around 70 firms employed more than 500 workers and almost none more than 1,000. Similarly, in the UK there were only a handful of co-ops with more than 250 workers in 1980, most of these being well-established firms in the CPF. Finally, Jackall and Crain (1984) report that in their sample of approximately 100 US co-ops, 32% were in food production or retailing, 20% in non-food sales and production (for example films or records) and 18% in publishing. The average number of employees was ten.

This apparently "natural" pattern of co-op development with small firms in labour-intensive sectors, has considerable logic to it. Co-ops will tend to shy away from capital-intensive sectors because they cannot raise the finance — they are cut off from equity finance by their rules or are unwilling to risk losing effective control to external capital suppliers. There is also the widely quoted danger of co-op under-investment (see Vanek (1975), Furubotn and Pejovich (1970)) which will be more serious in sectors with heavy capital requirements. Finally, as Meade (1972), argues, workers in co-ops are unable to diversify their capital risks within the firm and may therefore seek to minimize internal finance in order to hold a well-balanced portfolio.

We also need to consider the skills required in the production process. Labour-management is the democratic control of the firm by its labour force, and its success as an organizational form hinges on the relevance and capacity of their skills.[4] As a rough rule, co-ops will be most successful where all the workers can make a significant contribution to enterprise success and managerial activities. Examples include artisan trades such as printing or furniture making. There will be problems for labour-management where the production process itself is

[4] Levin (1984) stresses the critical role of education in workers' participation.

unskilled and mechanical, with little reliance on the knowledge of the workers themselves, and where enterprise success depends on the talents of a small group of workers — for example specialists in marketing, in design, in finance or in international trade. This is a second reason why co-ops will find it hard to emerge in large multi-divisional heavy industrial branches. Moreover, co-operation itself as a process is most successful in relatively smaller firms, which further mitigates against a role in sectors with significant economies of scale. It is not impossible to have some degree of self-management in large firms — the Yugoslavs have shown the way by breaking the firm itself up into a loose confederation of sub-units, the BOALS (see Sacks (1984)). But many observers argue that divisionalization has cost Yugoslav industry dear (see Lydall 1984), Estrin (1984)) and indeed may be an important source of the current economic problems. Overall these arguments point co-ops towards the activities in which they are already well represented; in sectors with relatively small scale labour-intensive production techniques which employ highly skilled workers. Unless the problems of finance, management and decentralized control can be solved, perhaps along the lines followed in the conversion large private companies, it seems sensible for co-op support agencies to concentrate their efforts on sectors with the above mentioned characteristics where the prospects for long-run success appear greatest.

5: CO-OP GROWTH BY TYPE OF FIRM

Recent developments on the theoretical side strongly suggest that the long-term viability and performance of co-ops is sensitive to their internal arrangements or rules. In particular, survival is contingent upon the attitude of the firm to outside workers and individual owners. The brief final part of this lecture will be devoted to these issues, with the hope of highlighting potential lines for future research.

An issue which has been attracting considerable theoretical interest in recent years is the role of hired workers. Most co-ops in the Western world actually use significant numbers of hired workers. For example in France in 1978 only some 47% of workers in the French co-op sector were actually members. The figure was closer to 75% in Italian manufacturing co-ops and 60% in American plywood co-ops though less than 40% in UK CPFs (see Estrin, Jones and Svejnar (1984)). Even Israeli Kibbutzs use some hired labour (see Barkai (1977)). The key exceptions to this are Yugoslavia, Mondragon and the reforestation co-ops in the US, where rules do not permit the use of hired labour.

The problem with co-ops which hire workers is their tendency to degenerate into capitalist firms (see Ben-Ner (1984) and Miyazaki (1984) on the co-operative life cycle). The idea is that existing members in profitable co-ops will always seek to substitute within their labour forces low cost external workers for high cost members in order to raise the earnings of the members who remain. As demand conditions improve and existing members retire, the co-op degenerates to the capitalist form as the proportion of workers who are members declines to

zero. This will fail to occur only if workers earn in the co-op less than the market wage, so that the opportunity cost of hired labour exceeds that of members, but co-ops making long term losses of this sort are not viable either. Hence both financially successful and unsuccessful co-ops will ulimately disappear; an analysis which seems to describe events in, for example, the US plywood co-ops very well. This suggests that in establishing new co-ops, policy makers or supporting agencies ensure, as in Mondragon, that 100% membership is compulsory. Alternatively, they could follow the French co-op sector in permitting the use of hired labour with the proviso that all workers must be freely admitted to membership. Estrin and Jones (1985) argue that this will prevent degeneration; an argument consistent with the French experience of long-lived co-ops.

The final issue concerns the appropriate balance of individual to collective ownership. In the UK, France and Italy, the legal requirements are for minimal individual holdings with the remainder of the assets being held in collective form. Most other experiments, including the large UK conversions, ESOPs and the Scandinavian employee ownership plans, stress the role of collective ownership and denigrate individual equity stakes. In addition to Vanek's theory about the effects of collective ownership on investment and survival (Vanek (1975)),[7] the problem here is that the firm can only accumulate at the rate of growth of profits, which may be inadequate to the point of threatening survival at key points in the co-op's life. More generally, reliance on collective ownership seems to restrict the co-op form to sectors with low capitalization requirements.

A solution is to open the firm up to significant individually owned capital stakes, as occurs in Mondragon (see Thomas and Logan (1980)) and in practice in most French co-ops. Estrin, Jones and Svejnar (1984) report that while individual ownership only accounted for around 4% of the total assets in the British CPFs in 1968 and 10% in Italian manufacturing co-ops, it accounted for 30% in the French construction and almost 60% in the French electrical sectors. The US plywood co-ops are in fact entirely funded from individual member stock or external debt. Oakeshott (1978)) and many others argue that the individual capital stakes are the source of Mondragon's success, and Defourny, Estrin and Jones (1985) find that co-op performance was positively associated with the percentage of total assets that were individually rather than collectively owned.

On the other hand, Gunn (1984) points out that the privatization of ownership via individually owned capital stakes introduces an individualistic ethic into the firm which runs strongly counter to and may ultimately undermine the collectivist spirit of the co-op. Moreover, they may generate life cycles of their own, as has occurred in th US plywood co-ops. The problem is that, as the average value of the individual capital stake rises, it becomes increasingly hard for new workers to raise sufficient funds to buy into the firm, which must therefore inoreasingly rely on hired labour. Ultimately pressures of these sort lead to the re-emergence of the capitalist firm. Once again the underlying difficulty rests with capital market imperfections, and these have been solved in Mondragon by the activities of the bank which is willing to lend prospective workers the required initial stake as an advance against future wages. The policy decision here is more sensitive because the nature of the organization is in question, but the funding and incentive arguments as well as the Mondragon example seem to strongly support a role for individually owned stakes, even if this means that the supporting agency must undertake a banker's role.

[7] See Stephen (1984) for a summary and critique.

CONCLUSIONS

The dramatic growth of co-op sectors in Western Europe and the United States during the recession suggests that such firms may have a significant role to play in employment creation. A proper assessment of this issue raises questions of long-term co-op viability and ability to survive in varying economic climates as well as the cost effectiveness of public job creation in this rather than other organizational forms. These are the themes which have run through this lecture.

We have seen that much of co-op growth comes from rescues of declining capitalist firms, where it is not clear whether the co-op is playing a short-term employment-preserving role or opening up secure long-term prospects. Rescues of the former type can be defended on welfare grounds, but may slow market adjustment and are no alternative for structural employment policies. The role of support agencies has also been crucial in new starts, though one should not undersestimate an increasing concern among workers, especially younger ones, for more demooratic forms of organization. If one wants to develop a co-op sector for its own sake, however, rather than for economic properties of such firms, probably the most effective way would be to encourage conversions of existing successful companies.

The most important conclusion to be drawn is the dangers of seeking a single characterization of the potential role of co-ops in the economy. Co-op viability and ability to create jobs depends on how they were formed and by whom, on the sector of production and the size of the firm, and just as importantly on the specific rules and regulations of the firm itself. The common perception of co-ops as small, inefficient and unable to survive is based on one set of such parameters, but numerous other examples now exist. It is true that large co-ops formed from above by central authorities may rapidly fail, but middle size to small conversions or creations from scratch supported with technical and financial advice by a central agency and with a 100% membership rule probably stand a better chance of suvival than new capitalist firms (see Jones and Backus (1977), Perotin (1985)). Co-ops may be particularly attractive to policy makers because they can create jobs more cheaply than capitalist firms by mobilizing workers' effort, wage flexibility and perhaps even their savings. The evidence sugests that the appropriate ways to institute such policies would be through an entre-

preneurial support agency with model rules to prevent the degeneration process and with its own financial or banking department.

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Table 1: Changes in the Level of Unemployment and the Number of Jobs Created in Producer Co-ops in the EEC, 1976-81

	No. Unemployed	No. Workers in Producer Co-ops	
		A	B
1976	5,271,000	298,040	
1977	5,741,000	—	
1978	5,969,000	—	
1979	6,055,000	—	
1980	6,776,000	—	
1981	8,882,000	519,600	
Inorease	3,611,000	222,560	114,000

Sources: Eurostat, Section 3
CECOP, Table 3.

A denotes CECOP estimate

B denotes own estimate based on the three Italian federations' data, but excluding all Italian co-ops not belonging to a federation.

Table 1 is based on the information in Table 2 plus the job creation in Danish co-ops between 1976 and 1981, which CECOP calculates as 11,100 in 165 new co-operatives and in Holland, 4,320 jobs in 370 new co-ops.

Graph 1: Number Unemployed and Employed in Producer Co-ops in the EEC, 1976 — 1981

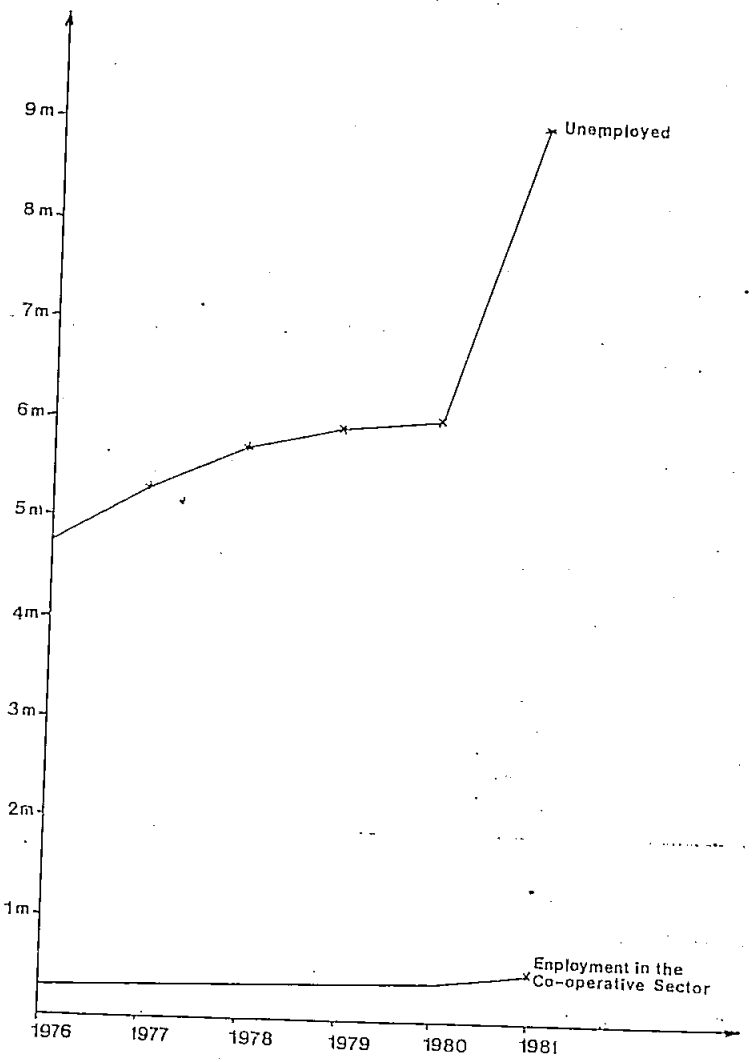

Table 2: Size of Co-operative Sector in France, Britain, Italy and Mondragon

Year	FRANCE		ITALY				U.K.		MONDRAGON	
			A: All Coops		B: Federated					
	No. coops	No. workers	No. coops	No. workers	No. coops	No. workers	No. coops	No. workers	No. coops	No. workers
1970	522	29,200	4,370				17	1,600	40	8,570
1971	540		4,139							
1972	351									
1973	520		4,420							
1974	527		4,860							
1975	545	31,000	5,377	209,700			19	2,500	50	12,543
1976	559	29,000	5,893	229,800			47	3,000		
1977	522	30,200	6,690				78	3,500		
1978	573	30,500	7,854				150	5,000	66	14,676
1979	698	32,700	9,055		5,283	317,000[1]	201	5,400	70	15,672
1980	811	31,400	10,140	387,300			330	6,000		16,432
1981	933	32,500	11,203	427,900			468	7,000		
1982	933	32,500	11,203	527,900						
1983	1080	35,000								15,986
New Jobs 1976—81		3,500		198,100		90,000[2]		4,000		3,889[3]

Footnotes: 1: excluding the Association: see Table 3: 2. See Table 4: 3. 1975—80.

Sources: *France:* Sibille (1982) Tables 4, 5, 8; CECOP no. 82/B Annex III *Italy:* Sibille Table 18, CECOP Annex III; Tables 2, 3 and Annex 2; *U. K.:* CECOP Annex 2. *Mondragon:* Logan & Thomas in Jones and Svejenar (1982), Table 7.1. and Bradley and Gelb (1984).

Table 3: The Numbers of Coops and Jobs within the Italian Federations

Federation	No. coops 1974	1976	1979	No. workers 1970	1974	1976	1979
Lega							
Construction		602	807				(140,000)
ANCPL [Industry		315	391	7,500			18,500
ANCPL [Services		(—)	123				
ANCS [Services		758	1,100			31,000	55,000
TOTAL		(1,675)	2,421				247,000
Confederation							
Construction	517		752				
Industry	105		276				
Services	182		488				
Artisans	101		116				
TOTAL	905		1,632		45,000		70,000
Association							
Production			170				
Industry			200				
Service			630				
Transport			230				
TOTAL			1,230				

SOURCE: Sibille, Chapter 2 and Tables 19, 20, 21.
Numbers in brackets represent estimates.

Table 4: New Jobs In Italian Federations; Annual Averages, 1970—79

	No. New Co-ops	No. New Jobs
Lega	200	7,500
Confederation	150	7,000
Association	80	3,500
	430	18,000

Source: Sibille: Chapter 2 and Tables 19, 20, 21.

Table 5: New Jobs in New Co-ops in the EEC

	FRANCE		ITALY (A)			U K	
	no. new co-ops	no. new jobs	no. new co-ops surviving more than one year	no. new jobs in surviving co-ops	no. new co-ops	no. new jobs
1970	52	800			1	
1971						
1972			281			
1973						
1974						
1975	56	800	517		1	500
1976	50	800	516	20,100	16	128
1977	76	1,135	803		26	500
1978	103	1,287	1,158		47	1,424
1979	140	1,894	1,201		61	1,400
1980	154	2,665	1,085		90	812
1981	228	3,202	1,063	40,600	138	1,000

This Table gives the numbers of co-ops created in each year and the number of jobs created by their formation. It differs from Table 1 by excluding job creation in existing co-ops and excluding co-op closure.

Sources: *France:* Sibille; Table 4, 5 and 8; CECOP Annex III; *Italy:* Sibille, Table 18, CECOP Annex 2 and *U.K.* CECOP, Annex 2.

Table 6: Mode of Co-operative Formation in France and the UK

	FROM SCRATCH		CONVERSIONS FROM OTHER FIRM TYPES		RESCUES	
	% co-ops	% workers	% co-ops	% workers	% co-ops	% workers
FRANCE						
1977	55	25	10	7	35	68
1978	55	37	15	27	30	36
1979	66	40	11	26	23	34
1980	64	28	14	18	23	54
1981	58	30	10	14	32	56
1982 (1 st 5 months)	57	28	11	9	32	63
TOTAL, 1977—1982	60	31	11	16	29	63
UNITED KINGDOM						
1975	0	0	0	0	100	100
1976	88	63	6	20	6	17
1977	92	92	0	0	8	8
1978	96	98	0	0	4	2
1979	97	96	0	0	3	4
1980	86	69	1	1	13	30
1981	82	80	1	—	17	20
TOTAL, 1975—81	88	77	0.8	0.6	12	23

Sources: Sibille, Table No. 9; CECOP Annex 2.

Table 7:

Ratios of Economically Active Working in Consumer and Producer Cooperatives to Total Economically Active in Different Branches of Mining and Manufacturing

Branch	ISIC Number	West Germany 1950	France 1954	Norway[a] 1953	East Germany 1964	Finland 1963	Bulgaria 1958	Hungary 1966	Poland[b] 1960	Israel[a] 1965
Total		0	1	5	5	6	6	12	14	15
Mining & quarrying	10—19	0	1	0	0	1	0	0	0	21
Food processing	20	4	5	26	13	44	3	0	31	21
Beverages	21	1	6	0	4	1	3	0	31	21
Tobacco products	22	0	0	0	0	0	3	0	31	21
Textiles	23	0	0	2	5	2	5	1	6	2
Clothing & footwear	24	0	0	0	5	4	29	3	39	6
Lumber products except furniture	25	0	0	5	13	5	0	24	17	23
Furniture	26	0	0	1	13	3	12	24	17	23
Paper products	27	0	0	0	2	0	0	11	15	0
Printing	20	0	0	11	2	1	4	0	25	13

Leather products except shown	29	0	0	0	12	0	21	3	37	8
Rubber products	30	0	0	0	0	0	3	3	9	0
Chemicals	31	0	0	1	1	2	3	3	9	10
Petroleum and coal products	32	0	1	0	0	2	0	0	0	0
Stone, glass, clay products	33	0	0	0	2	0	1	2	10	26
Primary metals	34	0	0	0	0	0	0	0	0	0
Metal products except machinery	35	0	0	0	0	1	8	15	16	14
Machinery except electrical, transport	36	0	0	0	5	2	2	8	4	21
Electrical goods and machinery	37	0	1	0	5	0	2	3	6	16
Transport equipment	38	0	0	1	0	1	2	1	5	20
Miscellaneous	39	0	0	0	2	2	3	50	37	7

Source: Pryor (1973), Table A-5

a) Estimate made for total.
b) Manufacturing and mining are defined slightly differently in the two parts of the table.
c) Ratios are calculated from GNP rather than labour force data.
d) In the following years, many of the producer co-operatives outside of agriculture were converted into state enterprises.
e) Hisdradnt and Kibbutzim enterprises are included as co-operatives.
f) Ratios are slightly overstated because labour force concept covers only 94% of economically active. Sources of data for these tables and methods of estimation are given in Appendix B-2 of Pryor's book.

Table 8: *Distribution of Co-operatives by Industry (% co-ops)*

Sector	FRANCE, 1982		ITALY (LEGA), 1979		U.K., 1980	
Building	44		61		10	
Services	19		9		52	
— general		12		—		46
— consultancy		7		9		6
Manufacturing	37		30		38	
— building materials				6		
— printing		6		2		18
— engineering		16		2		6
— wood/furniture		7		6		
— clothing/textiles		7		4		6
— food processing		1				
— water supply				3		

Sources: *France:* Sibille, Table 6
Italy: CECOP, Annex 2
U.K.: CECOP, Annex 2

Table 9: *Distribution of Co-operatives by Size (% co-ops and workers)*

FRANCE 1982 no. of workers	% co-ops	% workers
1—9	45	7
10—50	43	30
51—100	5	11
> 100	7	52
UNITED KINGDOM 1980		
< 10	71	
10—19	16	
20—49	8	
50—99	2	
100—249	2	
250—500	1	
> 500		

SOURCE: Sibille, Table 5, CECOP Annex 2.

ULOGA PROIZVOĐAČKIH ZADRUGA U CILJU VEĆE ZAPOSLENOSTI

Saul ESTRIN

Rezime

Tema ovog predavanja je moguća uloga proizvođačkih zadruga radi stvaranja novih radnih mesta, sa posebnim naglaskom na iskustvima u zapadnoj Evropi i Sjedinjenim Američkim Državama. Prisutno je znatno povećanje broja zadruga u ovim zemljama, a naročito od recesije koja je nastala početkom 1974. Mnoge od ovih firmi su potpuno nove. Naša namera je da opišemo, klasifikujemo i objasnimo ovaj uspon i damo zaključke u vezi politike nastale iz ovih iskustava za buduća preduzeća i institucionalna rešenja koja potpomažu razvoj zdravog zadružnog sektora.

Naš osnovni cilj je da damo informacije i s toga u narednom delu dajemo statističke podatke o veličini zadružnog sektora u razvijenim ekonomijama i njegovom razvoju u toku sedamdesetih i prvoj polovini osamdesetih godina. Ovi podaci nagoveštavaju da će biti korisno ako se stvaranje zadruga klasifikuje prema načinu na koji su pojedine organizacije osnovane, tj. putem spasavanja kapitalističkih organizacija koje se nalaze u fazi propadanja, zatim predajom postojećih firmi iz državnih ili privatnih ruku u ruke radne snage i osnivanje potpuno novih zadruga. Imajući ovo za cilj, dajemo detaljne informacije u vezi ove teme u zapadnoj Evropi i Sjedinjenim Američkim Državama, a takođe raspravljamo

teorijska pitanja koja su proizašla iz takve kategorizacije. U četvrtom delu i empirijski i teorijski analiziramo sektore u kojima izgleda da zadruge najviše uspevaju da sakupe i upotrebe informacije o različitim veličinama zadružnih sektora. Takođe diskutujemo o pitanjima razmera i kapitalizacije. Poslednja značajna tema odnosi se na rešenja koja se primenjuju u samoj organizaciji zadruge. Učinjen je pokušaj da se firme svrstaju prema propisima koji se odnose na radnike i vlasnike izvan zadruga. Zbog nedostatka informacija o ovim pitanjima, veći deo naše rasprave je teorijski. Završavamo tako što skrećemo pažnju na razne implikacije radi budućih ekonomskih istraživanja i metoda koje će se primenjivati.

Ovo predavanje ima dva najvažnija cilja. Prvo, da dâ osnovne podatke i perspektive za nekih šezdeset referata koji će biti ovde prikazani u toku sledeća tri dana. Što se tiče literature o radničkom samoupravljanju, poslednjih godina ta literatura se razvija neverovatnom brzinom i zato će ovaj referat najviše potencirati one puteve istraživanja koje ja smatram potencijalno najuspešnijim. Drugi cilj je da se i teorijski i empirijski obrati pažnja na bogatstvo novih iskustava, na informacije stečene prilikom proučavanja pojedinih slučajeva i na podatke koji su postali raspoloživi zahvaljujući brzom rastu zapadnih zadružnih sektora. Tradicionalna literatura o radničkom upravljanju daje monolitnu sliku zadružnih ciljeva, ponašanja i funkcionisanja, možda najbolje protumačenu u klasičnom delu Jaroslava Vaneka (1970). Čak i površan osvrt na nedavni razvoj u zadružnom sektoru nagoveštava da je reč o temi koja je raznovrsnija i komplikovanija nego što je do sada prikazivana — u vezi sa institucionalnim aranžmanima, podrškom politici i ponašanjem preduzeća. Sadašnji predmet istraživanja je da se dođe do zaključaka uzročnih struktura koje se nalaze na relaciji između unutrašnjih regulativa i organizacija koje podržavaju takve regulative, na jednoj strani, i dugoročni opstanak i efikasnost firmi sa radničkim upravljanjem, na drugoj strani. Na ovoj osnovi, politika stimulacije zadružnog sektora može se osloniti na sistematsko razumevanje i odmeravanje brojnih mogućnosti koje su otvorene demokratskim organizacionalnim oblicima.

Dramatičan razvoj zadružnih sektora u zapadnoj Evropi i Sjedinjenim Američkim Državama za vreme recesije nagoveštava da će takve firme možda odigrati značajnu ulogu u cilju veće zaposlenosti. Pravilna procena zadruga povezana je sa pitanjima njihove dugoročne održivosti i sposobnosti da opstanu u raznolikim ekonomskim uslovima, kao i ekonomičnost kreiranja radnih mesta od strane države, i to pre u ovom nego u nekom drugom organizacionalnom obliku. To su teme koje se protežu u ovom predavanju.

Videli smo da rast zadruga proističe iz spasavanja kapitalističkih firmi koje se nalaze u fazi propadanja. Ali nije jasno ima li zadruga ulogu da sačuva radna mesta na određeno vreme ili da obezbeđuje sigurna radna mesta na neodređeno vreme. Spasavanje prvog tipa radnih mesta, tj. na određeno vreme, može se deklarisati sa ciljem obezbeđenja socijalnog staranja, ali to može usporiti prilagođenje tržišta, a ne predstavlja nikakvu alternativu za politiku strukturalne zaposlenosti. Uloga agencija koje podržavaju zadruge takođe je vrlo važna za nove poduhva-

te, mada ne bi trebalo potceniti sve veće interesovanje među radnicima, naročito mladima, za demokratičnije oblike organizacije. Ako se, međutim, želi ekspanzija zadružnog sektora samo da bi se on razvio, a ne zbog ekonomskih osobina takvih firmi, možda bi najefikasniji način bio da se pospeši preobraćanje postojećih uspešnih kompanija.

Najvažniji zaključak koji se može izvući jeste opasnost od traženja jednostrane karakterizacije potencijalne uloge zadruga u ekonomiji. Održivost zadruga i njihova mogućnost stvaranja radnih mesta zavisi od načina kako su zasnovane i ko ih je zasnovao, od sektora proizvodnje i veličine firme, a što je takođe značajno i od specifičnih pravila i propisa same firme.

Uobičajeno gledanje na zadruge kao male, neefikasne i bez perspektive opstanka, zasnovano je na jednoj vrsti merila, no sada postoje mnogi drugi primeri. Istina je da velike zadruge osnovne odozgo, od strane centralnih vlasti, mogu brzo da propadnu, ali preobraćanje srednjih i malih firmi ili stvaranje potpuno novih uz tehničku i finansijsku pomoć centralne agencije i uz pomoć pravila da svi zaposleni moraju biti članovi zadruge, možda imaju veću šansu za opstanak od novih kapitalističkih firmi (vidi Jones i Backus (1977), Perotin (1985)). Zadruge mogu biti naročito privlačne za one koji kreiraju politiku, jer imaju šansu poboljšanja zaposlenosti na jeftiniji način od kapitalističkih firmi, time što će motivisati trud radnika i stvarati uslove za promenljiva primanja i organizovati štednju novca.

Iz ovoga proizilazi da bi pravi način ostvarivanja takve politike bio preko preduzimačke agencije koja podražava zadruge i koja bi stvorila pravila kao uzor u cilju sprečavanja procesa degeneracije. To bi mogla postići svojim sopstvenim finansijskim i bankarskim odeljenjem.

ECONOMIC ANALYSIS AND WORKERS' MANAGEMENT, 4, XIX (1985), 385—394

PLANNING IN A WORKER-MANAGED ECONOMY

*Claus BISLEV**

1. INTRODUCTION

1.1. The Need for Planning in a Worker-Managed Economy

From the big debate within economic theory on the behaviour of labour-managed firm on a free market (J. Vanek, B. Ward, E. D. Domar, B. Horvat, et. al.) we have plenty of arguments for the necessity of planning in the worker-managed economy. Let us just sum up here that the problem is not that the worker-managed economy as a whole shows a worse behaviour than does its capitalist counterpart. Quite the opposite seems actually to be the case. But a worker-managed market economy would basically show some of the same tendencies of inherent instability as does the capitalist market economy.

From this viewpoint, planning is thus needed in order to protect the worker-managed economic entities against the hazards of the market mechanism. But, politically and sociologically viewed, planning also becomes necessary. In my view, planning should also play the role of securing the position of the working class in a worker-managed society. Planning must therefore be performed in a way which ensures the control of the production process, and the distribution of the values produced to the right hands.

It follows that it should be possible to rule out some planning models, in their pure forms, as adaptable to a worker-managed economy. The "central-command" planning, practised in Yugoslavia shortly after World War II, and for several decades in Eastern European countries, stands in clear contradiction to the goals of workers' management. It disables workers' management at a basic level, and contains all the well-known problems of destruction of information upwards through the hierarchy, leading to inconsistent and often directly harmful planning.

On the other hand, a planning system of capitalist origin, pure indicative planning, also stands in some contradiction to the intentions of workers' management. Sarcastically enough, one could characterize this kind of planning as "manipulative" planning. It is planning based on

* Institute of Production, Aalborg University Centre, Aalborg, Denmark.