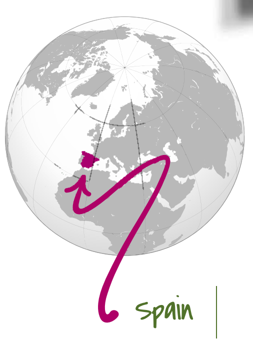
Photo | Fagor Automation

Mondragon – the future of market economy?

Could a more than 50-year-old co-operative model be the future of production and participation, and contribute to solving the current crisis in Europe? When the Mondragon co-operative group started in the 1950s in the Basque province of Spain, it did in fact establish the concept of a networking economy long before the expression was coined.

Today, the Mondragon model has showed its resilience to the financial crisis in Europe. While Spain and large parts of Europe struggle with rates of unemployment at 25 per cent and above and an uncertain economic future, Mondragon and the Basque country have shown that there are different models to keep the economy going and reduce unemployment. Mondragon has succeeded in absorbing those who lost their jobs, contributing to an unemployment rate of approximately 15 per cent in the region, while continuing to develop the business operations during one of the worst economic crises in the history of Europe. The workforce of Mondragon, about a sixth of them outside Spain, has remained relatively constant.[29]



In the 1950s, the first co-operatives started in the small town of Mondragon in the Basque provinces of Spain. The initiative came from the priest José Maria Arizmendiarreta who was inspired by the social doctrine of the Catholic Church. What was even more remarkable was that the co-operative movement could develop, despite the political oppression during the dictatorial Franco regime.

> 'Those who started the movement realised that we human beings spend almost half of our life working, and they said that we needed to dignify the work and through this dignify the people. They wanted to break the classical model of the economy and put the person at the centre of the operations. Myself, I have never liked the expression 'human capital'. The human should be at the centre. Capital is only a means to achieve something, but humans should always be at the centre. Economy is a resource, not a means in itself,' says Mikel Lezamiz, director of Co-operative Dissemination at Mondragon Group.

Today, Mondragon is a local organisation with small, independent co-operatives as members (where each member has one vote). At the same time, it is a powerful financial group with a total staff of more than 80,000 people, business operations in several countries and about 100 co-operatives affiliated. Mondragon is the leading company in the Basque region and one of the 10 largest companies in Spain. In addition, Mondragon is most likely the world's biggest worker-owned co-operative, with global sales of €15bn.

The traditional co-operative movement surged in Great Britain in the early industrial era, with a focus on savings and consumption. While many other co-operatives, most notably consumers co-operatives, have turned into large conglomerates with little or no real ownership by those who are formally the members, the Mondragon group has chosen another model: inter-co-operation between independent co-operatives, some of them with a membership as small as eight, but each of them running their own business as independents and in the manner they choose.

In the Mondragon model, each member co-operative passes on 10 per cent of the gross turnover to the group's financial company, Mondragon Investments, which functions as the group's bank. When a co-operative makes an acquisition or expands its work, Mondragon Investment can co-invest up to 40 per cent of the total investment. Funds are also invested in research and educational centres, as well as in social programmes. Finance, industry, retail and knowledge are all key areas within the Mondragon framework.

> "In the Mondragon model, each member co-operative passes on 10 per cent of the gross turnover to the group's financial company.

The principal idea is that the joint movement should have the strength to absorb temporary losses. If the financial situation becomes difficult, staff from one co-operative can be relocated to others. The co-operatives are also passing liquidity between them via Mondragon Investment. The members have the right to continue their operations at a loss for a maximum of five consecutive years, something that makes it easier to adjust to structural and cyclical changes.

> 'The power resides with the individual co-operatives,' Mikel Lezamiz continues. 'If the co-operative decides to expand the business, for example to buy a plant in another part of the world, it will seek credit from Mondragon Investment and probably from external sources as well. We pass people and innovation between co-operatives in order to compete all over the world. Participation makes us innovate more, so that we can become more competitive.'

Mondragon is both collaboration and flexibility. Companies within the movement can buy supplies together and they can offer their products jointly, while at the same time being independent and making their own decisions. There are synergies, but at the same time independence is guaranteed.

29 http://www.foe.co.uk/sites/default/files/downloads/agyeman_sharing_cities.pdf

Today, most co-operatives in developing countries are micro-credit schemes, savings and consumer co-operatives where members often borrow money for home improvement and/or small, private business. The Mondragon Group, on the other hand, has a strict business focus. Credits are for investments, in order to develop new and current business and to acquire already existing companies.

So, is there any real difference between Mondragon and traditional, commercial companies? Yes, argues Mikel Lezamiz. The co-operative movement is dominated by the people and not by capital. Mondragon cannot close the factories and move to China. Sustainability is required, here and now.

> 'We are in a market, 70 per cent of what we produce is for export, and we have to operate based on market principles. But while conventional companies are often not ethical, they are more profitable that socially responsible companies. This is something we see as a challenge, as we believe that we can be more competitive, while at the same time keeping our identity and our principles.'

The real test for the Mondragon group came in 2014 when it had to close down one of the biggest, and at the same time founding co-operatives, the home appliance producer Electrodomesticos. More than 1,000 staff members where reallocated to other companies within the group. The situation caused friction within the Mondragon group, but the outcome showed that the model did work: Mondragon was able to absorb those who were left without a job. One way of doing this - at the same time creating more jobs for young people – was to introduce a voluntary retirement system from the age of 58; another way was to reduce the salary and working hours of the members. Mondragon also introduced the family salary concept, which means that older people in the companies step down voluntarily, reducing their work-time in order for a young person to get a foothold in the labour market.

> 'There is 25 per cent unemployment in Spain and 14 per cent in the Basque country. In Mondragon, we have been able to retain people. This shows that we have a higher level of resilience compared to traditional companies, thanks to our model'.

In recent years, the expression 'social economy' has emerged as a way to describe a third sector that exists between the state and private companies and which includes many charities and non-profit companies. The social economy model is important, but it runs the risk of reducing co-operatives to something small and cute. But what is the most ideal 'co-operative': eight people who work perfectly together but without the ambition to generate more profit and work opportunity, or something with the ambition to grow larger?' Mikel Lezamiz asks rhetorically.

> 'In the social economy, values come first. This gives us inspiration and we fully support local initiatives in the social economy where people exchange products, create local currencies and do other things. But for our operations to work, we need to be profitable. We are part of the social economy, but the difference from many social economy [initiatives] is that the focus for Mondragon is production. Our mission is to generate social wellbeing through our business model and I believe that we are socially more responsible if we create employment for the youth, than if we were to create our own, small utopia where we spent time discussing what colour fabric we should have on our chairs. We might be a less perfect organisation, but one that generates jobs and social wellbeing.'

Could the Mondragon model be the future for the European Union? Today, many are looking for new paradigms, in which it is not the economy, but society that is in focus. In 2013, the European parliament passed a resolution highlighting the role of the co-operatives for the economy.[30] The parliament recognises that co-operatives are becoming increasingly important and that there are about 160,000 co-operative enterprises, owned by 123 million members and providing jobs for 5.4 million people. Co-operatives contribute, on an average, around 5 per cent to the GDP of each EU member state, according to the report, which also notes the resilience that the co-operative enterprise model has demonstrated during the economic and social crisis that Europe is still facing. In particular the report focuses on the co-operative option for restructuring businesses in crisis or without successors, via for instance a business transfer to employees. The European union also recognises that the co-operative business model contributes to real economic pluralism, and is a vital part of the 'social market economy' along the values of the EU Treaty.

> 'When the first co-operatives were formed 200 years ago, many of their members could not read or write. Today I believe that we have real opportunities for co-operatives in front of us. We are still reinvesting in the society; we are looking for the balance between participation and return on capital. Of course, we would prefer a world market that is not neo-liberal, but at the same time we have to operate in the system,' Mikel Lezamiz says.

The co-operative enterprise model has demonstrated resilience during the economic and social crisis that Europe is still facing.

Photo | Joan Grifols

30 http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2013-0222&language=EN#title2