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Beyond Master and Servant: Understanding and Overcoming the Obstacles to Economic Democracy in the US

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This work analyzes the rarity of worker cooperatives in the United States in hopes of reaching a greater understanding of the difficulties of putting economic democracy into existence. Historical, social, legal, and economic explanations are offered to help explain why worker cooperatives have remained on the numerical margins of American society, despite their tremendous potential and empowering promise. In short, workforces wishing to become a cooperative enterprise experience difficulties acquiring capital and financial support from outside institutions, thus they require a large degree of civic support. The legal, economic, and civic institutions of the US have in turn yielded an unfavorable climate for cooperative ownership. Even mainstream American labor unions have been historically reluctant to offer their critical support. All these factors have contributed to the rarity of worker cooperatives in the US. This work concludes with a discussion of how local governments and citizen involvement can help overcome the barriers towards greater worker control in the US.

KEYWORDS: Worker Cooperatives, Economic Democracy, United States, Labor.

Worker cooperatives have long advocated the common sense principle that democracy should not be confined to the political, but practiced in our everyday lives. They defy the seemingly pithy wisdom of Margaret

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Thatcher's famous defense of capitalism by demonstrating that there *are* indeed alternatives. Not only are many worker cooperatives competitive and efficient organizations, but they also empower their employees and communities. However, if a viable alternative to our social and economic conditions does exist, one must inevitably ask why it has been an anomaly for so long. Why is one form of organization so much more prevalent than the other? What are the factors preventing this alternative from becoming more commonplace? Can this alternative system be more widespread, or is its unique structure a hindrance to greater development? This work will focus mainly on the United States, but also hopes to provide broad answers that can be applied elsewhere.

Worker cooperatives show tremendous potential as an economic organization for social justice. There have been varying definitions of worker cooperatives and its principles throughout history. They vary significantly in their structure, but all share a commitment to egalitarian and democratic participation. Worker cooperatives are firms fully owned by their employees (or members) equally, and the employees actively vote, delegate, and participate in the decisions of the firm. The International Co-operative Alliance (ICA), the largest non-governmental cooperative organization in the world, defines the necessary business conduct of a cooperative as 1) voluntary and open membership, 2) democratic member control, 3) equitable economic participation by its members, 4) autonomy and independence, 5) education, training and information for its members, 6) cooperation among cooperatives, and 7) concern for community.[1] This work shall be limited only to worker cooperatives. Other forms of cooperatives, such as consumer, retail, agricultural, and others, will not be discussed. There are many names for worker cooperatives which are often used interchangeably, such as employee cooperatives, labor cooperatives, workplace democracies, labor-managed firms, etc. The broader theoretical system of an economy dominated by cooperatives is often referred to as economic democracy.

Worker cooperatives exist in a variety of industries around the world. Successful worker cooperatives exist in the US, India, UK, Canada, Israel, Latin America and Europe. Examples of successful current worker cooperatives include the Mondragon Cooperative Corporation, Italy's massive La Lega Cooperative Federation, Norwegian IT company Kantega, the British Suma Wholefoods, the Indian Coffee House network, the Alvarado Street Bakery, and the American reforestation firm Hoedads, among others. The United States has a long history of cooperatives, as exampled by the Self-Help Cooperatives of the Great Depression and its successor, the Plywood Cooperatives of the Pacific

Northwest. Many Latin American countries are currently making tremendous progress in utilizing the cooperative alternative. In the early part of the decade, many closed-down factories in Argentina were seized by unemployed workers and reopened as cooperatives. Venezuela has been experimenting heavily with this alternative since 2005. Rejecting the neo-liberal model towards development, Venezuela under Chavez seeks to develop through close partnerships with the state and worker cooperatives.

Full worker-control does indeed face many adversities that are quite different from their traditional capitalist counterparts. It is important to identify them, and decide how these difficulties may be best overcome, if at all. In probing for explanations on the rarity of worker-control, some answers have been given in the fields of economics, sociology, psychology and jurisprudence, and political science, among others. This work does not pretend to offer a complete analysis. Volumes can be written upon this topic while barely scratching the surface. There are political, social, ideological, and historical factors too numerous to be listed within any single contribution to explain the rarity of workplace democracies. Rather, this report merely hopes to contribute to the larger analysis of understanding the rarity of worker-control.

This work will review explanations for the rarity of worker cooperatives in a variety of intellectual disciplines. Some explanations that will be examined include some historical, social, legal, and economic frameworks. First, there will also be a historical account of labor law, and the evolution of work relationships within the workplace. There will also be a discussion on the passivity of labor unions towards the prospect of owning their enterprises. Economic explanations are dealt with in some detail. In particular, the problems associated with workers financing their own workplace are examined. Although these explanations may be diverse, they should not be seen as separate from each other. Rather, they are quite interrelated in explaining a broad historical phenomenon. Finally this report will conclude with a discussion of how public policy and citizen involvement can help overcome these obstacles and help spread economic democracy.

It is of utmost importance to note that rarity should not be confused with deficiency. Worker-cooperatives are indeed unusual, but it would be incorrect to jump to the conclusion that they are therefore defective. Similarly, it would also be inaccurate to say that the adversities facing worker-control are insurmountable. There are numerous examples of worker cooperatives that have overcome the obstacles before them, and many of these adversities can be significantly reduced or resolved altogether with proper public policy and citizen engagement. Thus, understanding the rarity of worker-control is the necessary first step towards helping them flourish. Before proceeding towards the present-day, it is worth reviewing historical and social frameworks that may have prevented employee-control from becoming more prevalent today.

ECONOMIC OBSTACLES

If one were to expect a modest body of literature in economics analyzing worker-ownership, they would be disappointed. Relatively few economists have tackled this topic, but most acknowledge that worker ownership *can* be successful. What can be said of its rarity? In a word, an answer can be found in its financial arrangements. However, before beginning the economic and financial discussion, it is important to make some distinctions. The majority of the focus on capitalist firms heretofore will be the modern publicly traded corporation, where share ownership is granted to public investors. For the purposes of easing comparison, small businesses that are privately owned are not included unless otherwise noted. These firms are often family-operated, labor often includes only a handful of people or less, and are much different from the modern corporation. There are many types of firms out there, with a variety of ownership structures. There are many different kinds of cooperatives, as well. The following comparison shall largely be between the worker-owned firm and the most prevalent and powerful of business firms, the corporation.

In short, the historical success of capitalist firms *is not* their unique ability to produce and engage the market efficiently; worker-owned firms are at least as capable. Rather, capitalist firms have a comparative market advantage due to their ease of creation and reproduction. Crucial among these advantages is their ability to receive proper financing and start-up capital. Worker-owned firms suffer greater adversities in this respect. The difficulty of labor to acquire proper financing of a firm is a multifaceted problem, and has been identified by a variety of authors as the most important key to understanding the rarity of employee-control. Although this hindrance is a structural one to some extent, this *can* be remedied through effective institutions and laws to leverage worker-managed firms on par with capitalist firms.

Publicly traded capitalist firms have a natural edge in attracting capital. Investors typically far outnumber workers in any given firm, which is a tremendous advantage. Its openness to the general public makes securing financing easy. Investments may range from the very large to the very small; the amount is voluntary. A creative variety of financial vehicles have since evolved to make attracting capital easier, and public policy has been tailored to their needs. The 401k, for instance, ties together the financial future of prospective retirees with capital investment. The invention of public ownership and investment made forming businesses much easier. Businesses that, at one time, would require the financial backing of a monarchy can be created today by soliciting the land-owning public.

In contrast, worker-owned firms are much more difficult to create under free market forces alone. These cooperatives must secure their funding solely through their work force, which can sometimes be quite small. Investment is not generally open to the public; shares of the firm are typically held within its workforce. The financing of a firm can be very difficult, considering most workers may not have the disposable wealth required. Furthermore, investors may abandon capitalist firms when profits decrease; their liability is minimal. Workers, on the other hand, cannot so easily abandon a sinking company and transfer their capital elsewhere. In fact, the invention of ‘limited liability’ laws for investors has largely been credited as the key component to the domination of the corporate organizational structure. In contrast, public policy has yet to do for worker cooperatives what limited liability laws did for the corporation. As noted before, legal institutions have made implicit prescriptions for the class functions of labor and owner.

Compounding this difficulty is that selling a private firm to its workforce is often considered only once the firm is in severe economic distress. Worker cooperatives are often started as a last-ditch effort at maintaining the jobs, and are a purely defensive, spontaneous effort.[2] In this process, risk-aversion plays a critical component. Investors strive for portfolio diversification and risk management. They do so by investing in many and different kinds of companies and leverage risk to provide a balanced portfolio. Assuming that workers are similarly risk-averse, this makes the investment unattractive to workers offered sale of the firm. Workers contemplating a cooperative would have to place the majority of their earnings (no matter how meager) into purchasing this firm, and their financial prospects are singly tied to the company’s performance. This makes risk-aversion very difficult, and prudent workers are not likely to make a single, enormous investment. During the shutdown process, the former owners often irreparably exploit any remaining lucrative aspects of the firm before giving it to its workers to run. In analyzing the phenomenon, Jackall and Levin surveyed the terrain as follows:

> Truly profitable firms are rarely abandoned to their workers. In fact, a firm marked for closure is milked for cash until its economic viability is marginal. Owners or managers allow their markets to deteriorate, the equipment to become obsolete, research and development to be neglected, and credit to be exhausted while they skim whatever liquid assets are available and look for new, more promising investments. These are not the most auspicious conditions under which to initiate any sort of enterprise. Even the kind of enthusiastic work force that comes together to form a worker cooperative cannot resuscitate a moribund business.[3]

Since the notice of sale is often sudden, it also gives very little time for collective financing and structure making. This will produce higher failure rates than a healthy enterprise, and the negative experience will deter other workforces from cooperative ownership. As noted earlier, the offering of US companies to workers was rarely considered a serious alternative in most labor circles until very recently.

Outside financing (through debt) has usually been quite difficult for worker-owned firms to secure without issuing ownership shares in the company. Banks, similarly, may not want to lend money to a firm where no one single person may be held accountable. Banks are risk-averse as well. They may have anxieties in loaning to an experimental business model, preferring instead the traditional business model. In fact, some banks fear there is an inherent interest on defaulting on loans. Henry Levin[4] and Herbert Gintis[5] have noted that lenders may prefer to deal with undemocratic firms due to the leverage of dealing with a single owner. One owner can be more easily influenced than an entire workforce, especially for financially risky pursuits. Due to the lack of a legal structure for worker cooperatives, some economists have pointed out that a firm where no one single person is liable for the loan may make default of payments more likely.

Financing is not the only area in which employee-owned firms face a comparative disadvantage. Worker cooperatives also face collective-action issues that make democratic firm creation difficult. The diffusion of costs and benefits may also account for their slow growth rates. Entrepreneurs and investors can appropriate the lions' share of their investment, thus their benefits are concentrated. The benefits of worker-managed firms are much more diffuse and long-term. This diffusion of benefits can make collective action much more difficult. Gregory Dow has made tremendous advancements in surveying worker cooperatives in respect to economic literature. In writing of the rarity of transforming worker buyouts, he wrote:

> The governance and productivity benefits from a transition to workers' control are widely diffused among the workforce, and a small group of workers can only capture a fraction of those benefits by organizing an LMF (labor-managed firm). The organizers of the buyout do, however, bear much of the cost. No corresponding problem arises in the other direction because a few investors can capture much of the social benefit from transforming an LMF to a KMF (capital-managed firm), although they may internalize all the costs.[6]

When compared to a corporation, worker cooperatives may face greater difficulty in organizing and finding common interests. Investors in capitalist firms typically have only one ultimate interest: the maximization of profit. Investors have little personal attachment to the workplace and the business. It is merely a contract. Entrepreneurs similarly view labor as a contract of wages and labor, and owe little more than fulfillment of that contract. Workers, on the other hand, can be expected to have a greater diversity of interests in the ownership of the business, for a variety of reasons. This may make collective ownership and unity difficult, as some workers may not always agree over priorities.

Furthermore, worker cooperatives are not spread out evenly across industries, but rather tend to cluster within industries that are labor-intensive (as opposed to capital intensive), and where there is less division of skills. This seems to confirm that cooperatives face comparative difficulty securing capital, and in overcoming collective action problems from the division of labor. However, there is a spatial component which is quite striking. Worker cooperatives also tend to cluster geographically. The majority of cooperatives in Spain are located within the Mondragon region and its surrounding communities. The same can be said of the Lega Federation in Italy, the plywood cooperatives in the northwestern US, the CGSCOP in France, and others. It appears that worker cooperatives are more likely to flourish when there is a model physically operating within close proximity for other workforces to utilize. In analyzing industry and community clustering, Dow attributed it to the following:

> The role of template firms is readily explained by learning. Once it becomes known that an LMF (labor-managed firm) has been successful in some industry, others are more inclined to replicate the organizational form. This leads to spatial and temporal clustering partly because industries themselves are geographically concentrated around raw materials or other resources, partly because a region may face common economic problems to which LMFs offer a solution (such as plant shutdowns), and partly because dense information networks develop locally through word of mouth, community organizations, and media outlets.[7]

In Victor Wallis' survey, the existence of a cooperative tradition within a community is also noted as a highly important factor.[8] It appears these worker-owned firms have a 'pull' effect on surrounding private companies; workers within those communities may want similar rights and treatment, and thus begin collectively organizing. Perhaps, the obscurity of the cooperative model is an historical hindrance in itself. Many people do not know such a model can, and does, exist, and so they do not demand or strive for it. Similar sentiments were echoed by Ben-Ner in pointing out the scarcity of supporting institutions as a hindrance towards a greater cooperative sector.[9]

MASTER, SERVANT, AND THE ROLE OF THE UNION

Workforces wishing to cooperatively own their enterprises clearly face great adversities and the robust proliferation of this movement requires a large degree of institutional support from society. On this, cooperative ownership has been largely disadvantaged compared to capitalist counterparts. Labor in the United States has received historically poor treatment in comparison to the business and ownership classes. Thus, historical-social conditions are an indirect determinant of modern day work relationships. In order for employee-control to take root in industrial organizations, heavy collective action is necessary. By extension, legal frameworks and social orders to protect and support collective bargaining and other forms of labor organizing are also necessary. An overview of American labor history would affirm that legal protections and social frameworks were not in its favor. Labor has received very little protection for most of US history. Further, a social hierarchy had been heavily prescribed through legal frameworks, especially regarding the roles of labor and management. The path-dependency of this unfair treatment, and the constant separation between employer and laboring classes, would necessarily dictate a rarity of worker self-management. The development of workplace democracy, which directly challenge the roles and rights of labor, have been adversely affected. Despite the liberal foundations of American government, the lack of legal protection for labor may actually have much to do with English feudal traditions. Labor historian Karen Orren noted the influences of feudal English common law onto American law with respect to labor.[10] The legal relationships between master and servant in England became the de facto legal basis for American courts in determining the relationship between employer and employee. Due to our common law tradition, judicial precedents set by English courts many centuries ago determined the rights of employees in respect to their employers. Judicial precedents based upon the feudal English social classes of ‘master’ and ‘servant’ became the prescribed legal basis for dealing with labor disputes. For most of American history, labor was viewed as a contract obligation, and work stoppages and disruptive union activity were viewed as illegally breaking these contracts. It was under this background that American courts absorbed English feudal laws of enticement (prohibition on enticing a masters’ servant from fulfilling his/her duty) in dealing with union strikes, among other activities. In describing the social arrangement of labor, Orren wrote, “In the medieval period, as we have seen, laborers were conceived of as the feet -- more than the centipede’s -- of the res publica. Transposed to the workplace, they were expected to be controlled by the head, the employer, to perform as a single entity.”[11] Thus, labor activity was not seen as market competition by many courts, but as a disruption of the natural order of employers’ property rights. Labor organization had been tried under conspiracy laws for much of the nation’s history, and these trials revealed an implicit social order for laborers. Vagrancy laws provide another example of de facto feudal traditions. These social arrangements, the author argues, were prevalent throughout many state’s judicial rulings in regulating labor. Set against a historical body of laws prescribing a specific social order and hierarchy, it should be unsurprising that labor has been so passive in becoming the owners of economic organization.

For Orren, legislative activism in labor’s defense helped eradicate lingering feudal traditions. A turning point was the New Deal initiatives that granted many rights and protections to the labor movement. Although some may find this explanation controversial, it may help account for labor’s historical passivity in relation to capital. The rights of labor were not to be the head, but the tireless legs of the economic-social order. Thus, few firms have historically been offered to their workforce for ownership as it was an implicit disruption of the natural order of society. Indeed, a firm that offers ownership to its workforce is still rare today. Employee stock ownership plans are a very recent attempt at including labor into ownership, yet they offer no actual participation or decision making. Workplace democracies synthesize and thus annihilate the ingrained orders of owners and laborers, 'master' and 'servant'. Surprisingly, labor laws and protections enacted during the Great Depression currently provide an obstacle for both courts and worker cooperatives. American labor law is based upon a clear separation of employee and owner, and the *noblesse oblige* inherent within the business owners' responsibility of entitlements for its employees. In workplace democracies, each member is both an employee and an owner. Many courts are therefore unsure how to apply laws like overtime compensation, workmen's compensation, taxing entitlements on profits, etc. The law has yet to catch up to this new social status. Aldrich and Stern have identified that the material incentives of entrepreneurial activity in the US favored individual over collective benefits. This, in turn, has factored into the slow growth of US cooperatives[12].

American history has also shown another feature that would block the development of worker cooperatives, which is the historical ambivalence of many labor unions towards employee ownership. It is unsurprising that the management classes have been historically hesitant and afraid to accept workers' control. As labor unions are the main agents for working class advocacy, it is surprising that they have also been hesitant to accept cooperative ownership. Aldrich and Stern also found that many unions held negative views of employee ownership for much of the nineteenth and twentieth century.[13] More often than not, worker cooperatives were attractive only to the extent of being a short-term strategy in the collective bargaining process. During lockouts, unions would form cooperatives and continue production to force employers to settle with them. This proved to be a successful strike strategy, but the cooperative would disband upon conclusion of the strike. Few continued as a cooperative, as it would often mean having to break free of the union. The same study found temporary spikes in cooperative formation, especially during periods of economic distress. Permanent worker cooperatives, during labors formative years, were often dismissed as a long-term strategy. Collective bargaining had been officially determined as the chief strategy of union activity by the American Federation of Labor at its early conventions. Many of the leading unions that came to form the AFL held divergent views of producer cooperatives. For mainstream labor, worker cooperatives may have been too radical a solution. For radical labor circles, the cooperative solution may have been ‘too capitalist’. Advocates of collective bargaining, such as the AFL’s founder Samuel Gompers, were joined by the radical Socialist Labor Party (SLP) in opposing worker cooperatives. They were instead in favor of a more widespread collective-ownership of the means of production. Labor’s distance from cooperative ownership may also have to do with the risk-aversion of many union officials. As early 19th century cooperatives became bankrupt, forming cooperatives may have been viewed as too expensive and risky for unions to bear.

However, there are other explanations for the union’s historically ambivalent relationship towards worker cooperatives. Stern, Whyte, Hammer, and Meek have identified other sources of negative union attitudes lasting until the 1970’s and 80’s.[14] There is a difference in interests between local unions and internationals. Locals naturally focus more on maintaining jobs and working conditions by any means. High-ranking union officials are conservatively predisposed to maintain hard-won labor concessions; therefore deviations from what has historically worked are viewed with suspicion. As the authors point out, such was the case with the United Steelworkers of America in the South Bend Lathe employee buyout. When the South Bend Lathe company went bankrupt, the option was given to let its employees buy its shares. It became one of the first major US firms to be bought out by its employees. Regional and international USW officials, however, refused to support the local union’s efforts to buy the company. Pensions were considered a hard-fought labor victory. In order to save 500 jobs, the local union argued that the pension fund needed to be converted to an employee stock ownership plan. The international officials opposed the conversion to the ESOP plan, which they suspiciously viewed as a tool of management. This formed a bitter split between local and international, and resulted in a decertification election. The workers narrowly voted to remain within the union, but publicly demonstrated how conservative and bureaucratic unions had become. Alternative strategies in dealing with management are often reflexively discouraged.

This points to another reason for American labor not supporting employee-ownership; an inherent identity crisis and the fear of no longer having a purpose. Under employee ownership, the adversarial relationship between the union and management would be considerably altered. It is feared that employees would care more for the success of the company than collective bargaining. Worse, many union officials believed that there would be no place for the union under employee control. Unions, despite some progressive tendencies, have historically played the role of being a defense mechanism against management, rather than striving to significantly alter the relationship between labor and owner. In listing the reasons why many international union officers distrusted employee ownership, Stern, Whyte, Hammer and Meek found an identity crisis to be an important factor.[15] Citing a survey of union officials by Stern and O'Brien,[16] one of the most frequent responses to employee ownership was, "How can you bargain with yourself?" Other responses were more indicative, such as "Under such circumstances, labor's traditional functions in this economy are changed dramatically if not eliminated." It appears the identity of 'servant' is contingent upon the adversarial existence of the 'master'. In this case, the modern-day equivalent has now become 'union' and 'employer'. Confirming the necessary dichotomy of identity, one union official succinctly responded, "If there is no employer, why kid ourselves about the union?" In short, employee ownership is perceived to destroy the traditional function of labor, and eradicating the labor union along with it. Thus, significant alterations to the historical associations of 'master' and 'servant' are quite tolerated and persist well into the modern day.

It wasn't until the 1980's that many unions began to slowly warm up to the idea of workplace democracy. The time may now be ripe, as some unions have begun to embrace employee-ownership. The United Steel Workers union, which famously fought against employee-ownership thirty years ago, has reversed its position and formed an agreement with the Mondragon Cooperative Corporation in late 2009. The USW leaders expressed a willingness to incorporate features of Mondragon-style worker cooperatives into American workplaces. As the size and strength of American unions has long been in decline, many progressives are hopeful that this will be the beginning of a new direction in labor relations. Mondragon is an interesting choice for a partnership because they have also grappled with the role of the union in worker cooperatives. Mondragon has incorporated social councils as a vital component of its business structure. These social councils function much like a union by being the advocates, whistle blowers and grievance-bearers of everyday workplace issue solutions. The councils are formed from within the workforce, and its leadership rotates frequently. Mondragon has recognized and affirmed that unions will always play a very important role, even in worker cooperatives

Lastly, the fact remains that worker cooperatives are inherently more difficult to form and maintain than the authoritarian structure of traditional firms. If one considers this a fault, then it is certainly a fault worth having. It should be remembered that democracy is very difficult to create and maintain in any organization, political or otherwise. Capitalist firms have not become so dominant because they are the single best way to organize the economy. There is no more truth to that than saying authoritarian regimes have dominated history because they were the best way to organize a society. Many countries around the world have difficulties with establishing or reviving democratic participation. The obscurity of economic democracy should not be confused with deficiency. Political democracy was also an obscurity for most of recorded history. Suppose for a moment that a political economist in the 16^{th} century were to survey historical forms of government throughout the world, both authoritarian and democratic. There would no doubt that humanity can be ruled under an authoritarian regime, and has done so for most its history. Suppose the author then concluded that, due to the prevalence of these institutions, humanity is best served by authoritarianism and monarchy, and democratic governance is too lofty and unstable. Most would certainly disagree with his conclusions today, and dismiss it as the product of a time in history when disrupting the order of kings seemed naive. One should similarly not dismiss economic democratization. It should be remembered that democracy in any form is difficult; authoritarianism has long been more prevalent. Simply because it is difficult does *not* mean that one should stop fighting for it.

THE GOALS OF PUBLIC POLICY

If cooperatives face considerable obstacles relative to their capitalist counterparts, then one must inevitably ask what our civil and political institutions can do to assist to remove them. States can greatly assist labor in bringing democracy to their workplace. The question is how policy should be crafted, and how communities can be involved. Many communities stand to gain from the democratic workplaces and stable employment of cooperatives and states can help nurture its development. Broadly speaking, the aim of public policy should be to aid, encourage, and give incentive to its citizenry in the development of employee-owned firms. Furthermore, activists should aim their efforts at municipal and state levels for a variety of reasons. Concentrating on states and municipalities will yield the most immediate results and produce the variety and experimentation necessary to have a greater understanding of how to best assist the cooperative sector. There are a handful of broad goals which policy should work towards to successfully develop the cooperative movement. Forming viable cooperatives is not easy. If a citizenry chooses to establish a worker cooperative, states and local institutions should play an important part in assisting them.

Proper public policy requires a long-term and consistent vision for the movement and commitment towards its future. However, it should not foster dependency upon the state. Workers should not be deprived of their autonomy, and the vitality of economic democracy should not be heavily contingent upon the whims of politicians. Rather, policy should seek to develop supportive financial and legal institutions so that cooperatives can assist each other independently. Tax advantages and loans for establishing credit unions, cooperative insurance companies, and others would go a long way towards nurturing a large, independent cooperative sector. This much has been demonstrated by Emilia Romagna's assistance in developing the cooperative sector after World War II. Laws were passed to incentivize building cooperatives and making them more financially viable[17]. Laws such as the "Mini Reform of 1971" amended the legislative framework of cooperatives with fiscal incentives to their structure. This was during a period of time when the cooperative sector began to establish its own banking and insurance system, and give itself greater distance from the state. While imposing greater fiscal limits, the incentives for meeting them were quite high. A guarantee on work and business projects is important for any small business, both traditional and cooperative. While the Italian state increased its public spending, it offered high access to public works contracts (such as for schools, housing, transportation, etc) for cooperatives meeting these new financial standards. Besides public works, cooperatives are also prominent in social services, such as providing for the elderly, rehabilitating drug addicts, and caring for the abandoned[18]. By providing general public services, Italian cooperatives have long cemented their status as 'community-oriented businesses'. This approach can be utilized by American cooperatives. It is important to not only incentivize strong internal finances, but also to connect cooperatives with general public services and the community. The general cooperative movement in Italy provides a wealth of legislative examples that policy makers can draw upon. Also, the autonomy of the workforce must be respected regardless of how much the state is involved in the cooperative. Employee sovereignty is a defining feature of a worker cooperative. Rigid hierarchy of any sort can be detrimental and disheartening, and can lead to reversions into capitalist firms.

One of the most important goals of policy for cooperatives should be to help reduce inherent market barriers. The cooperative sector will most likely remain small without community and state assistance, and its growth will be slow. With some support, however, they can be robust and abundant. Programs that focus on rewarding and assisting small businesses can be extended towards cooperatives. As discussed earlier, workers who wish to own their firm should be given assistance with low-interest loans, tax benefits, and other preferences. Community organizations should be established through state and local programs to help assist this process.

Another goal is to build a legal framework in every state. This legal recognition would advance the movement tremendously. Vanek has demonstrated that cooperatives face discrimination from many sectors in society, including corporations and unions. Crucial among these groups are banking institutions.[19] Special legal recognition would remove labor cooperatives from being ‘anomalies’ that exist outside of the legal norms of the US. This lack of a legal framework is particularly difficult for many firms today. Many banks and financial institutions are uncomfortable lending to an organization without specialized legal backing on loan defaulting and bankruptcy. Often, a cooperative must try to fit the model of a traditional business when trying to acquire financing from banks. It is within a bank’s interest to be risk-averse and conservative, thus the discrimination against an enterprise lacking a legal structure should not be surprising. Lending to a cooperative can certainly be within banks’ interests, no less so than lending towards a private enterprise. Building a legal framework for worker cooperatives would greatly assist those in existence, and those that wish to form. Banks would conversely benefit from being better able to judge potential loan candidates. Cooperatives are very capable of succeeding in a private economy. Until then, some currently existing legal codes for non-profit corporations (such as the 501c categories) could be utilized for communities without cooperative laws. Tax code 501c3 could be especially helpful for cooperatives until further legal frameworks are developed.

There are many federal labor laws (such as the Fair Labor Standards Act, Federal Insurance Contributions Act, Federal Unemployment Taxation Act, etc.) under which cooperatives don’t quite fit the law. Labor law has clearly defined relationships of employment, separating employee from owner and employer. Thus, many courts are unsure how to define the members of a worker cooperative. Should each member be defined as an “employee”, or as an “owner”? Each status comes with its own set of legal obligations. In studying labor law and cooperatives, attorney Neil Helfman summarized the inherent problem as such:

> The lack of managerial power and the inherent conflict of interest present in employer-employee relationships which justify existing labor laws are absent in worker cooperatives…The absence of well-defined labor law applicable to worker's cooperative, and perhaps other entities with both worker and managerial elements, puts workers cooperatives in the position of not knowing what is required of them under the law.[20]

As noted earlier, modern American labor law developed from the feudal relationships and obligations of 'master' and 'servant'.[21] Since cooperative labor is ill-defined by these relationships, the full recognition of separate legal status is necessary. There has been tremendous progress in this respect. In 1982, Massachusetts drafted legal entity laws specifically for worker cooperatives, and has been a useful legal model for other states to utilize. Currently, only a dozen states (mostly in the northeast) have established a legal structure for worker cooperatives. Where those tailored laws are unavailable, many American cooperatives establish themselves as under the Limited Liability Company (LLC) laws.

The codification of cooperative principles into law is equally as important as structure and legal entity. The incorporation of cooperative principles into the Italian constitution has prevented abuses, scams, and reversions from occurring. Practices such as having too many non-members, financial speculation, and transferring shares to outsiders should all be made illegal in order to gain public assistance. In terms of structure, while membership markets should be generally avoided, the law should not set a precise structure, but rather a body of principles and obligations. The law should provide opportunity for experimentation with democratic business structures, as structure may evolve or differ by industry and firm type. This body of principles should be along the lines of those developed throughout history, such as those of the Rochdale pioneers, the International Cooperative Association, and the 2003 OSLO declaration by the International Co-Operative Alliance.[22]

Legal status should also be part of a broader goal: giving recognition and greater awareness of cooperatives in American society. The cooperative movement cannot spread without awareness of its existence, its benefits, and disadvantages. Labor law explicitly reminds workers in their workplaces that they have the legal rights to form unions and against being fired for their beliefs/race/gender etc. The ability of workers to buy out their company should also be more well-known and explicitly stated as a legally protected right. So long as employers and employees can contractually agree on the transfer of ownership, this does not infringe on the rights of others. Unionization is not a direct threat to the rights of private property, yet it has faced harsh repression and required a body of laws for protection. Democratic employee ownership will also require a body of protective laws and rights as well. Cooperatives will be better served if the law made labor ownership an exercisable 'right', and not merely an option.

Another important goal is to assist workforces wishing to convert their workplace into a cooperatively-owned business. There are many ways that states can help in this regard, and there has been some historical experience with this. American organizations like the Industrial Cooperative Association provide important consulting services to workplaces hoping to convert into worker cooperatives. They provide need assessments, feasibility studies, and assist workers through the process. The importance of organizations providing this service cannot be overstated. However, the process is difficult and rarely does a transfer of worker control occur even in opportune circumstances. As mentioned earlier, workforces are often not given the option to buy their firm until it is already bankrupt. That requires a great degree of capital up-front, and leaves little time to organize the transfer of the cooperative. A solution to this requires long-term wage deductions from an organized workforce.

Economist Gregory Dow advocates the establishment of a labor trust fund for workforces hoping to buy out their company.[23] Upon agreement on the transfer of ownership, a trust fund is established between the workers wishing to buy out their firm. The fund would be financed similar to an ESOP (Employee Stock Ownership Plan), but it would buy out shares of the company from its existing investors instead and deposit it into the collectively owned trust fund. The fund would be overseen by an elected Board of Directors, comprised of elected labor leaders. When the trust fund owns a large enough majority of shares, the workforce can then offer to buy out the remaining shares in lump sum. The amount invested into the fund would vary by workers at different income levels, and vary between retiring or newly hired workers. After the process is complete, the amounts invested would then be 'equalized'. Those who contributed less than the market price would continue to invest, repaying those who contributed more. With investment 'equalized', ownership can be based on the principle of 'one worker, one vote'.

Most policymakers are not even aware of such worker cooperatives, and prefer not to deal with the unknown. Researcher David Laylock stated that a major reason why the Canadian national government has not actively supported and financed the cooperative movement is because most policy-makers and bureaucrats are simply not unaware and/or unfamiliar with cooperatives.[24] However, state assistance can also be highly detrimental. Public policy should not promote cooperatives merely as an 'alternative', but as a viable tool in economic development. This difference may seem like semantics; however, utilizing this mindset can be a crucial difference. An 'alternative' is generally an unknown, and is thought to exist separate from what already works. Cooperatives have largely been viewed as such. It stands to reason that civic institutions will not grant heavy support to anomalies and alternatives.

The geographical clustering of cooperatives suggests many things. How much we can accurately infer from it is still up for debate. However, one could reasonably suggest that the awareness of a successful model would increase the likelihood of cooperatives forming within that community. Since people are more aware of it, they are more open to the idea of forming one than a community where no cooperatives exist and where cooperatives are largely unknown. Whatever truth there may be in that, there is no doubt that successful cooperatives influences the industry and community that they are located in. Cooperatives like Lega and Mondragon have demonstrated to be a tool in developing communities, especially those marked by high unemployment. Cooperatives should instead be viewed as a tool of economic development, rather than an 'experiment' or 'alternative'. They are a tool that can work hand-in-hand with other types of businesses to accomplish policy goals, with their own advantages and disadvantages. The recognition of being a capable tool, albeit of a different kind, would be important. Trying to build a worker-cooperative in a community is not the same as bringing in a Wal-Mart.

Promoting awareness of the loyalty of a cooperative to its community can be an important factor in furthering its development. Partnerships between community leaders and cooperative organizers should be encouraged, and there has already been some history of this in the US. The cooperative can provide solid and dignified jobs that will remain within the community, and the community can offer support through a variety of ways. Both actors would find the partnership beneficial. Far too often, a community will find itself in a "race to the bottom" in order to attract outside investment and bring in a large corporation. Many communities find that they sacrificed far more than they benefited in providing employment for its citizenry. Communities should invest within themselves instead of searching for the quick fixes promised by large corporations. Some large companies, like the retailing giant Wal-Mart, can hurt local economies by destroying competing small businesses. Building stable employee cooperatives can provide both long-term employment and an economy of scale that will serve to make it more competitive in the long run. This would be especially important for towns experiencing high unemployment, and overall deindustrialization. In exchange, a community can provide a favorable business climate for cooperatives much like Emilia Romagna has done for their Lega cooperatives. The community should be entitled to a voice in the cooperative as it is directly affected by the decisions of the firm.

Of all the efforts that can be done for the cooperative sector, one of the most effective is simply being active in making the public aware of them. The public's unfamiliarity with worker cooperatives has hindered its development, but that can easily change with activist efforts aimed at promoting awareness. Lastly, individuals can make a tremendous impact by simply purchasing from worker cooperatives in their neighborhood whenever possible.

CONCLUSION

Worker's control is indeed possible. It seems, though, that without greater awareness and support, cooperatives will likely remain remote islands in an ocean of capitalism. The cooperative movement has grown considerably since the twentieth century, but its growth has been undeniably slow. There are numerous explanations for the rarity and slow growth of worker cooperatives. Labor unions, the most influential advocacy groups of the working class, have largely been reluctant to step outside the boundaries of the master and servant dichotomy. Further, this was compounded by a lack of support from legal, civil, and economic institutions programmed to incentivize private capitalism over collective action. In short, the US does not foster a fertile civic climate for the collective action of worker cooperatives. However, this does not need to be the case. The cooperative movement can be greatly assisted by local activism working to incentivize and institutionalize worker control.

END NOTES

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